# The MAGAZINE of WALL STREET

*and* BUSINESS ANALYST



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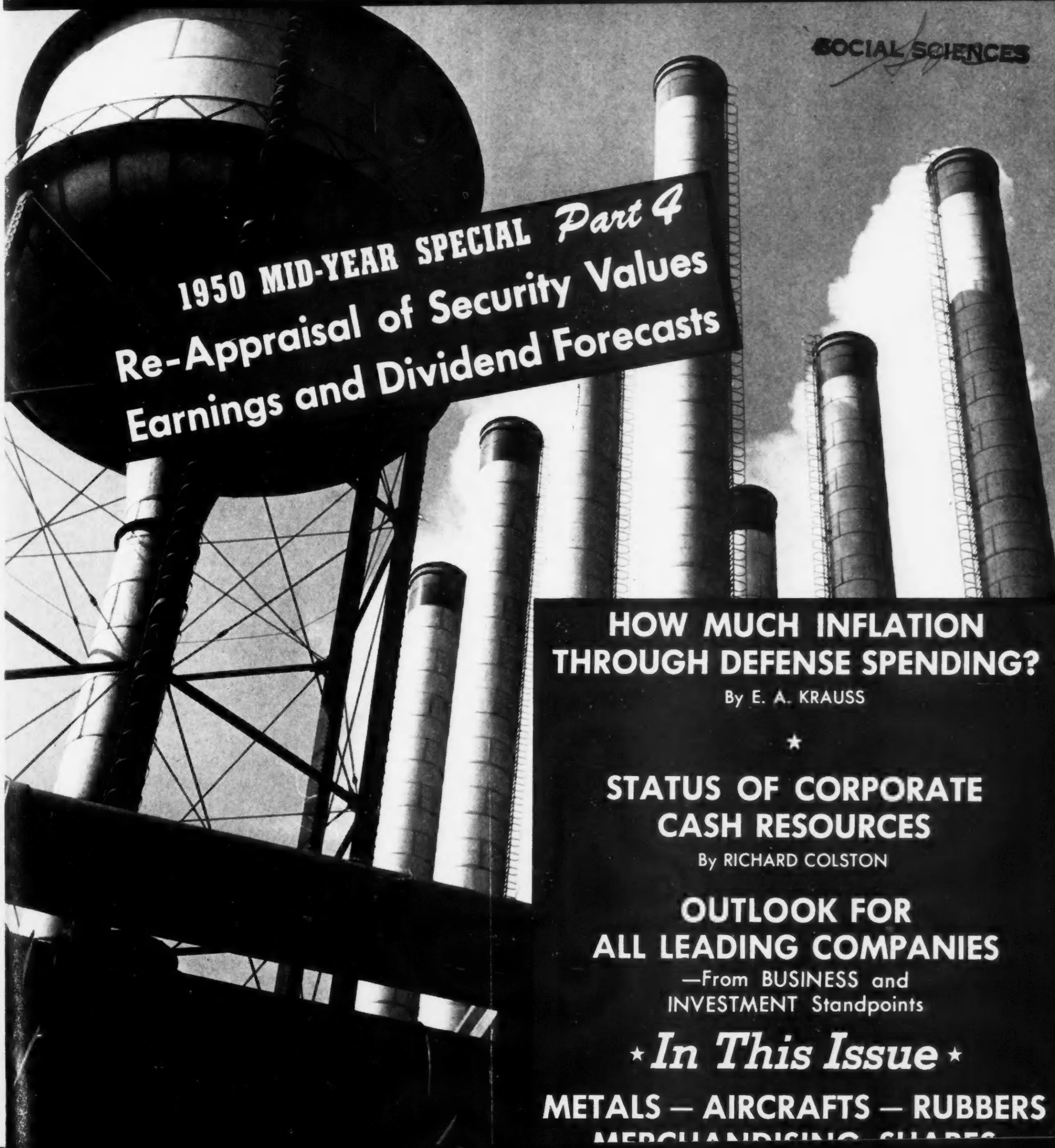

1950 MID-YEAR SPECIAL *Part 4*

## Re-Appraisal of Security Values Earnings and Dividend Forecasts

## HOW MUCH INFLATION THROUGH DEFENSE SPENDING?

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## STATUS OF CORPORATE CASH RESOURCES

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## OUTLOOK FOR ALL LEADING COMPANIES

—From BUSINESS and INVESTMENT Standpoints

⋆ *In This Issue* ⋆

METALS — AIRCRAFTS — RUBBERS

# THE MAGAZINE OF WALL STREET

## and BUSINESS ANALYST

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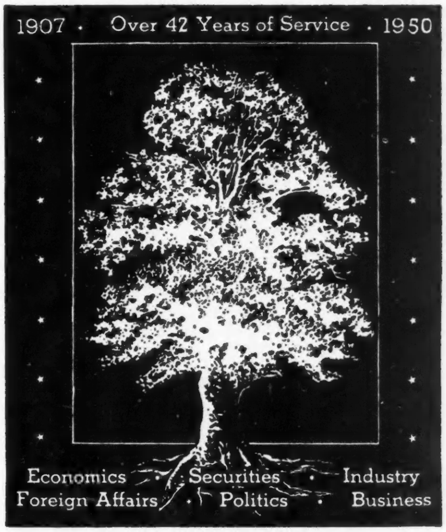
THE MAGAZINE OF WALL STREET

C. G. WYCKOFF, *Editor-Publisher* E. A. KRAUSS, *Managing Editor* ARTHUR G. GAINES, *Associate Editor*




# The Trend of Events

**TIME FOR SHOWDOWN** . . . "Business as usual" has been declared incompatible with the public interest in the present state of emergency, but this apparently does not apply to labor. Emergency or no, there is no interruption in the annual parade of strikes and the latest railroad workers' dispute is a particularly flamboyant example of this attitude. Two railroad unions served a virtual ultimatum on the Government; either seize the roads or traffic will come to a standstill—thereby maneuvering the President into a position in which he had no other choice but to take over. That is exactly what the unions wanted to happen. The ultimatum was designed to force the Government's hand not only to seize the railroads but to make the Government itself deal with the union demands in the expectation of thus obtaining greater concessions.

The Government, through a fact-finding board, has already intervened previously but the board's recommendations were not satisfactory to the unions. The latter's demands are equivalent to a 31¢ an hour pay boost while the fact-finding board recommended a settlement to cost about 18¢ an hour. The carriers accepted this, but the unions rejected it. Their expectation is that the Government will now help them narrow or eliminate the eight-cent an hour gap.

By precipitating their latest step, the unions may gain a few more cents. After all, with elections coming up in November, Congress and the President will be sensitive to labor pressure though it is just barely possible that for once, labor has overplayed its hand. The President has made no attempt to conceal his keen disappointment over the railroad strike call. While he did not say so in as many words, it is clear that he felt himself double-crossed since the unions, only an hour before the strike call, had given him assurances that there would be no strike. Thus union leadership, with an ineptness difficult to believe, has succeeded in compounding irresponsibility with breach of faith.

If the unions gain their ends, it would not be surprising if the Interstate Commerce Commission will later fix still higher freight rates and passenger fares. The public will pay and pay—directly in higher charges and indirectly in added cost of all merchandise that moves over the rails—another powerful inflation stimulant. The whole incident is significant as evidence of labor's attitude towards the use of strikes in what the President has called a crucial period. Labor is vociferously in favor of all Government controls on inflation except wages, and the rail unions have made it clear that they will continue to use their normal weapons to push wages up even if they have to coerce the Government.

It is clearly time for a showdown. With the nation launched on an emergency defense program of major proportions, steps must be taken to free the economy once and for all from these recurrent threats of a breakdown in its transportation system. Unless the Administration shows firmness in this controversy, we fear that the country is in for a period of dangerous labor strife—at the very time

*We recommend to the attention of our readers the analytical discussion of business trends contained in our column "What's Ahead for Business?" This regular feature represents a valuable supplement to Mr. A. T. Miller's stock market analysis of importance to investors as well as to business men. To keep informed of the forces that may shape tomorrow's markets, don't miss it!*

BUSINESS, FINANCIAL *and* INVESTMENT COUNSELORS : : 1907—*"Over Forty-two Years of Service"*—1950

when nothing should be done to jeopardize the defense effort. If the railroad unions get away with their current attitude, it is a foregone conclusion that other unions will consider this as an open invitation also to use the emergency to press for advantages. They are already doing it, in fact. The rail unions are not the only ones to continue strikes as usual. Obviously labor's intent is that the wage part of the wage-price spiral will continue upward. If they succeed, the danger of inflation remains acute.

The new wave of wage demands, feeding on price rises, already constitutes the basis for a growing strike flurry. Unless more sober counsel prevails, it may be 1941 all over again. The unions want all they can get before the wage freeze goes on. Industry, told to hold prices, is caught in a squeeze. Increases at General Motors, forced by the living cost formula, has added tremendous pressure on other companies, as has Chrysler's subsequent voluntary pay boost. The threat of a squeeze in the supply of skilled manpower is aiding the trend, with managements less determined to resist demands. If this continues, a full-fledged "fifth round" will have become a fact in short order with incisive inflationary repercussions.

**MACHINE TOOLS AND CRABMEAT** . . . One of the incongruities of the West's dealings with Russia, a country with which the United States is virtually at war, is found in reports from London, stating that British firms asking for machine tools for defense production are being told that they will be served *after* Russian orders are filled.

Winston Churchill brought the subject into the open in a recent radio speech when he questioned whether British firms should be making tools for Moscow, some of which of a type required "for the manufacture and repair of tanks." The Board of Trade confirmed that Russia has been getting British tools—$1.31 million worth in the first seven months of this year. And the management of Craven Brothers, Britain's second largest engineering firm, said his company will be tied up for many months filling a $2.8 million order for Soviet Russia. Moreover, it was revealed, Russian inspectors are permitted to go into British factories to inspect the work on Russian orders. Naturally, in doing so, there is much that an expert can see which he shouldn't see.

It strikes us that this sort of thing is rather incongruous in times like these. We appreciate that these goods are made for, and sent to Russia in accord with the terms of the Anglo-Soviet Trade agreement. Russia in turn ships to England foodstuffs, lumber, feed . . . and crabmeat, to mention one Russian export article that has recently become quite famous. It is the same crabmeat, presumably, which Great Britain finds too expensive for home consumption, hence has been trying to sell in the United States. Were we to buy it, we would actually become a party to a deal which permits the Soviets to purchase in England the tools used "for the manufacture and repair of tanks." Russian tanks—which are shooting at our troops in Korea.

Isn't it time to stop such nonsense? American longshoremen had the good sense to refuse to unload the Russian crabmeat in U.S. ports. We feel that Britain should have the common sense to stop sending essential machine tools to Russia. Western solidarity alone, and the common interest vis-a-vis a deadly enemy, should dictate such a course. But apparently it's just another case of "business as usual," a case of subordinating the interests of trade to the necessity of firm and realistic action in a crisis which is endangering the world.

British officials have stated that in supplying goods to Russia, Britain "has been careful to withhold any commodities which come into the category of strategic priority." The complaint of British defense industries in need of machine tools doesn't bear this out. Somewhere something is very wrong in this picture and it should be corrected without delay.

**ARGENTINA DEVALUES** . . . In an entirely unexpected move, Argentina devalued the peso for the second time in eleven months. The cut was a drastic one, by fully 58%, with the new so-called free market quotation now 14.25 pesos to the dollar compared to the previous figure of 9.02 which had prevailed since last October 3, before which it had been 4.80. The devaluation has been so drastic, in fact, that some believe that at the new rate the peso may be undervalued, though it is now approximately what dollars have cost in pesos in the black market. Thus one effect may be to curtail and eventually perhaps even eliminate illegal exchange dealings, though such an expectation may prove premature.

The latest step which also does away with the heretofore complex system of nine different official exchange rates, is essentially an effort to bring Argentina's exchange system more in line with realities—a move long overdue. Another avowed aim is to attract foreign capital by giving a more realistic number of pesos for investments in dollars or other foreign currencies brought into the country. Whether it will achieve this end remains to be seen. It could help attract foreign investments if foreigners are given some positive assurance that they can repatriate their capital, as well as transfer profits from investments, at the same rate at which the capital was converted into pesos. In other words, much will depend on the nature of exchange regulations set up by the Argentine Government, as well as on the general treatment of foreign capital.

The new quotation of 14.25 is a free market rate where the peso henceforth will be allowed to find its own level. Additionally, there will be two new basic and preferential rates for exports and imports at five and 7.50 pesos to the dollar, respectively, depending upon the commodity to which the rate will apply. Exports of hard-to-sell Argentine merchandise will be given the preferential rate, and imports of much-needed machinery and industrial equipment will be similarly facilitated. Devaluation thus is likely to stimulate sales of Argentine products and to hold out the promise of freer purchases of American goods later on, if the former development proves successful. On the other hand, the new exchange rate will make much American merchandise more expensive which could have a restrictive effect on demand. But altogether, in view of the strong tone of world commodity markets and the low level of American exports to the Argentine currently, some expansion in Argentine-American trade seems feasible.

# *As I See It!*

BY ROBERT GUISE

## CONFUSION ABOUT FORMOSA

The Administration recently has had some unhappy days with some of its top officials. Following repudiation of Navy Secretary Matthews' advocacy of preventive war in the name of peace, President Truman was compelled to deal with what seems an even graver conflict of opinion between our military and diplomatic authorities. This conflict, as exemplified by the MacArthur statement on the military situation in the Pacific and the decisive strategic importance of Formosa, has long been brewing.

Our actions and policy concerning that island have been confused and at times contradictory in the past and the Chinese communists have now taken advantage of that fact. Their charges against the United States of aggression before the United Nations were obviously timed to give more propaganda ammunition to the Soviet delegate, Mr. Malik, although the world knows that they have no basis in reality. The Soviets and their helpers can have a field day with it and because of that, the timing of the MacArthur statement was rather unfortunate. Largely for this reason, it appears, has the President attempted to suppress it.

"DOWN GETTING THE MORNING EGGS"


*Dowling in the N. Y. Herald Tribune*

However, in asking General MacArthur to withdraw his statement in order "to avoid confusion as to the U. S. position," confusion has been created rather than avoided, for doubt has arisen about the firmness of our policy. While the Administration has shown no signs of backing down on its guarantee of Formosa against attack, some question whether our stand on Formosa may be quite as resolute as the delicate situation in the Far East requires, and as the President himself implied in his June 27 statement reversing the earlier Administration policy of not defending the island.

The situation is complicated by the fact that in the case of Formosa, unlike that of Korea, we acted unilaterally and not as the agent of the United Nations. Nor do we have the support of some European and Asiatic member nations.

It is known, for instance, that we have been at loggerheads with Britain about our Formosa policy, but the MacArthur incident is now reported to have increased British hopes that British and American attitudes can be "harmonized" on the theory that American policy appears in fact only a temporary expedient for the duration of the Korean war rather than permanent strategy as proposed by General MacArthur. So far, the British Government has taken the attitude that while it is prepared to carry out the United Nations policy in Korea, it was not bound to join us in our decision to defend Formosa. Our guess is that because of what has happened, it will not be easier but harder to "harmonize" Anglo-British differences. And that of course is unfortunate.

But paradoxical as it sounds, the incident also has its constructive aspects, for it has forced the issue and should make any vascillation, if such was the case, more difficult to justify if not impossible. The public is entitled to know where we are going and by what route, and will insist on it.

The need for definite clarification of our policy is all the greater because of the outlook in Korea. While the short term picture there justifies optimism, the long term outlook is darkened by deep shadows coming from the North. General Mao is known to be moving troops towards Korea instead of concentrating on Formosa. There are reports of the dispatch of big Russian tanks from Russian-controlled Dairen. Red China's complaint that American and British planes had strafed Chinese territory could easily be an excuse for giving the North Koreans military help.

While as yet there is no (*Please turn to page* 646)

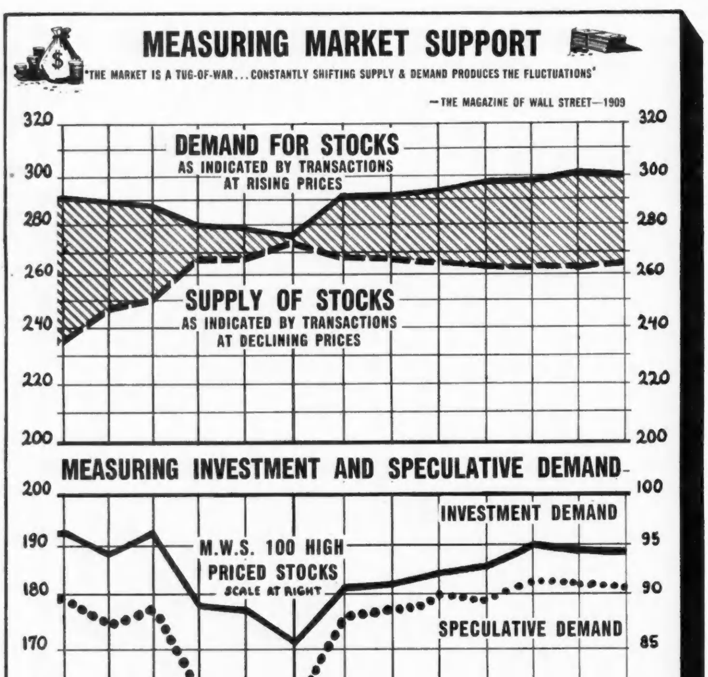
# Forces Determining Next Market Move

**The recovery move has slowed and is showing signs of tiredness, pointing at best to a trading range phase in the near future. In our view the market cannot progress much further without more light on what's ahead. We therefore advise against new commitments at this stage and favor prudent cash reserves for future buying opportunities.**

**By A. T. MILLER**

The month of August ended with the stock market pausing listlessly after having lost some of the ground gained during the seven-week rebound from the "Korean break." Following a fairly sharp setback coincident with the threat of a nationwide railroad strike (which didn't materialize) almost a fortnight ago, no real strength developed and though pressure was moderate, it led to a number of minor retreats. Thus at this writing, the Dow industrial average is some four points below its August 23 recovery high of 221.51, reducing to about twenty points the net advance from the July 13 low of 197.46. It may or may not be of technical significance that the Industrials got up to just below the break-away level (around 224) established during the latter part of June, before backing away. At any rate, to judge by market action in the last few days, it looks as if at least a temporary top had been reached.

There can, naturally, be no absolute certainty that this is so; still it would be a logical assumption. For one, it is inconceivable that the market under existing conditions will exceed its June bull market high of 228.38 any time soon, though it has come quite close to it despite unfavorable or inconclusive war news, and the host of uncertainties in a semi-war economy, the exact shape of which is still obscure. While panic is behind and unreasoned fears have largely yielded to more sober appraisal, the road ahead is far from clear. Until it becomes clearer, it is difficult to envisage development of a wave of enthusiasm that could carry the general market much higher than it has been.



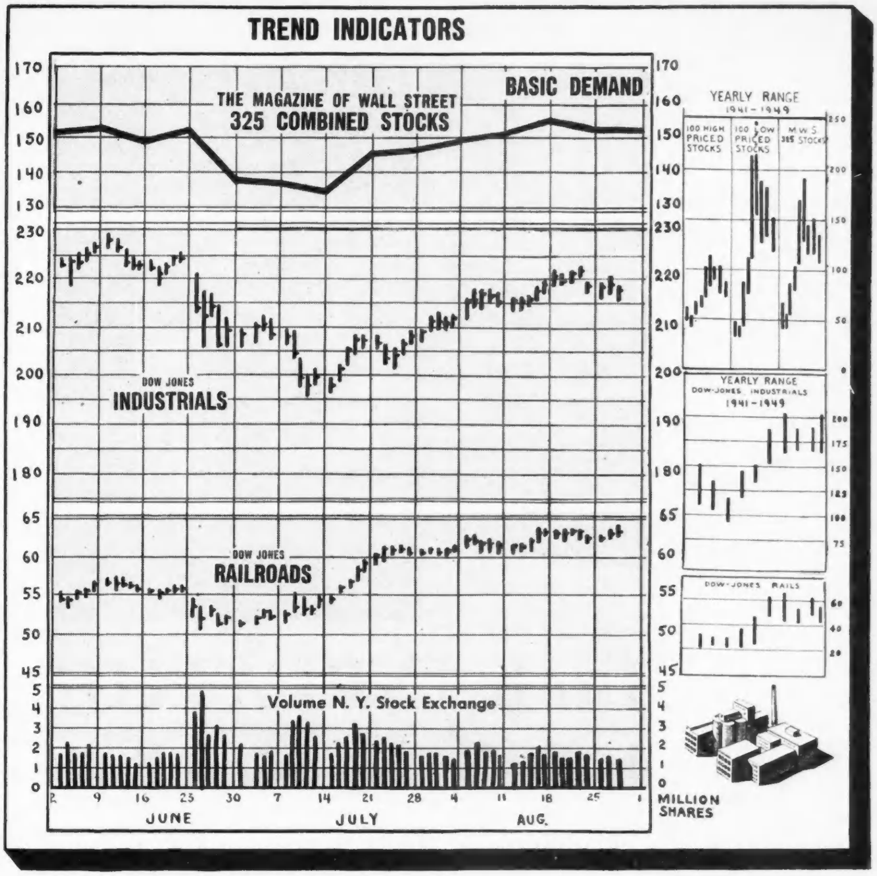

#### Market Still In Adjustment Phase

Eight weeks have passed since the market buckled under the first impact of the Korean news. The new selectivity which began to develop shortly thereafter, represented a more calculated adjustment to the conditions which appear to be in prospect. *The market certainly is still in this phase,* and it might as well be added that the efforts to appraise future earning power are necessarily fumbling and conjectural. It is pretty difficult to build a structure without a foundation, and that is exactly what the market has been trying to do. Understandably, any such attempt involves a considerable margin of error, subject to later correction.

Thus it is still a bit early to begin the division of stocks into "war" and "peace" groups, or to develop firm convictions (except in clear-cut cases such as the aircraft manufacturers) what industries will benefit or will lose as a result of the emergency. Similarly, most everything about the tax impact is guesswork, pending exact details. Nor can anyone predict the imminent or eventual temperatures of the "cold to hot" war, or its duration. How can one one estimate what proportion of our productive capacity will ultimately be required for rearmament? What con-

trols will be established? How great a deficit will be incurred, and how will it be financed? What will corporations be allowed to earn on Government contracts? None of these questions can be answered today. The point is that to-date we simply do not have any solid ground upon which to build firm conclusions.

The result is that price movements of late have frequently been contradictory. So-called "war" stocks were initially bulled up, then met selling. Obviously in this category, the upthrust occurred completely in the dark about real potentials and many have been bid up to levels that discount profits which may not be earned for quite some time. Similarly, there has been a revision of ideas about "peace" stocks, formerly under pressure The process of reappraisal will doubtless go on as the prospective picture gains sharper outline, and while the new patterns of selectivity may not be entirely swept away, adjustments from extremes as well as to newly unfolding conditions will be the principal feature of nearer term markets, barring severe upsets which are bound to affect the entire list.

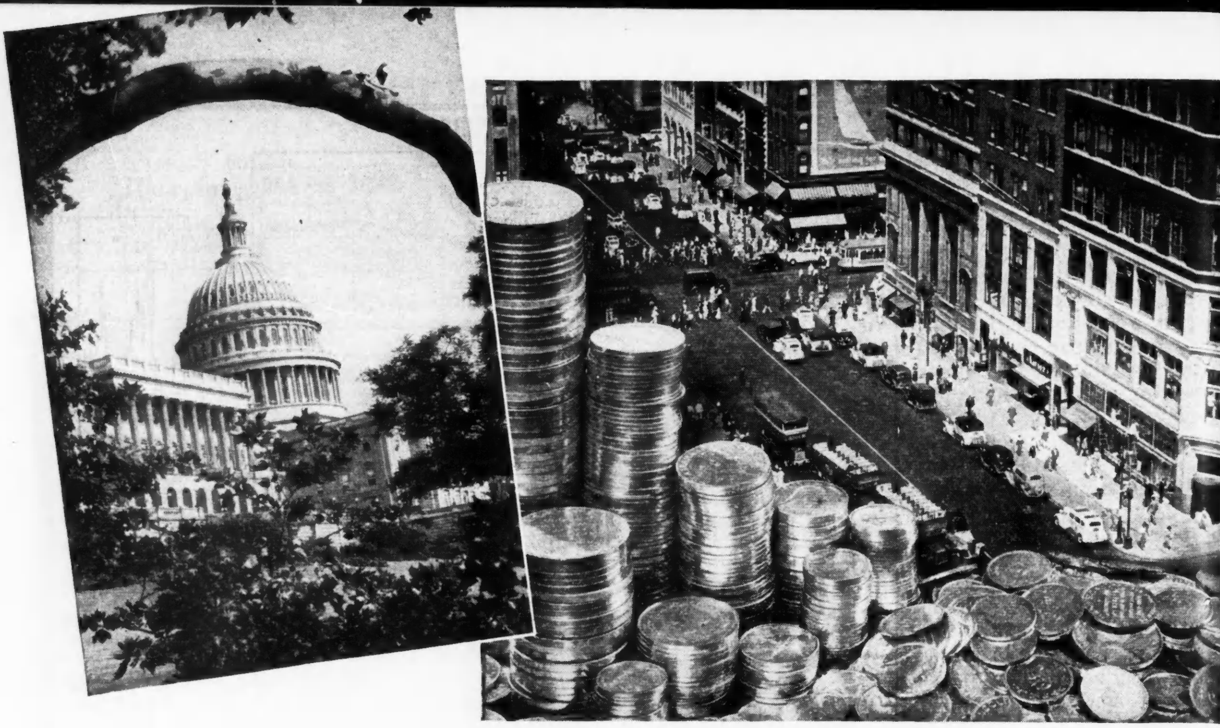



Main prop of the recovery move was the conviction that the intensified defense effort removes any possibility of a business let-down and guarantees high level economic activity for an indeterminate period; that neither taxes nor controls may be too severe in their impact, at least initially; and that, consequently, the attraction of equities as investment media remains relatively undiminished. Lastly, that the defense effort carries distinct inflationary implications. These are the broad assumptions on which the market has been rebounding, plus the (wishful) thought that all-out war can be avoided. And most assuredly, the better tone of the news from the Korean fighting front aided greatly.

The character of the news, whether political, military or economic, will have incisive bearing on the market's near term course, despite the fillip which it received and is still receiving, from the flood of favorable business news including a long list of extra or stepped-up dividends and excellent earnings reports. Sentiment remains vulnerable to Korean developments and in this respect, the possibility of involvement with Red China has led to caution of late. As to taxes, EPT remains the biggest threat and recent efforts to make such an impost retroactive to October 1 has jarred the feeling that for the balance of the year at least, everything will be fairly clear sailing. Were such efforts to succeed, it would be a severe blow to year-end dividend payments which are expected to reach a record high.

In our view, the market has reached the point where it cannot progress much further, on an overall basis, without more light on what's ahead. This applies to the whole gamut of uncertainties as previously outlined, including the possibility of a spreading of the war. Even without the latter, chances are that our productive economy, even if slowly at first, is likely to shift to fuller war mobilization and all it implies. Moreover, the current wave of wage boosts, or strikes and strike threats to obtain them, is not a reassuring development. Even if production is not importantly interrupted by strikes, which would intensify or speed shortages, wage boosts lift costs and there is a question to what extent higher pay rolls must be absorbed by industry at the expense of profits, and possibly dividends.

The market to-date has been taking the more cheerful view of almost everything but the time has come when these assumptions must be borne out. It cannot progress indefinitely on guesswork or on a show of official optimism. While the optimism may be justified, it still requires proof, and this will take some time. In the interim, a wait-and-see attitude appears to us the soundest policy, particularly if readers, as previously advised by us, already hold substantially invested positions. In our view, this is not the time to take on any extensive new commitments. The market is in a high area and has proved itself vulnerable to shock from various directions. Our advice is to sit tight and maintain adequate reserves for future buying opportunities. —Friday, September 1.



# How Much INFLATION Through Defense Spending?

By E. A. KRAUSS

The bulge in arms spending necessitated by the Korean war and the country's need to keep its defenses on a preparedness basis has required a number of important decisions, not the least of which lies in the field of financing the defense effort with a minimum of inflation.

With budget deficits apparently taken for granted, some inflation—and perhaps a good deal of it—is widely regarded as inevitable. Yet barring total war and assuming that sensible policies will prevail, neither huge deficits nor any marked inflationary upsurge need necessarily accompany the rearmament drive.

True enough, even before Korea, a budget deficit of $5.1 billion had been anticipated for fiscal 1951; but even without Korea, this calculation would have lost validity—just as estimates for fiscal 1950 did—in view of the revived business boom. Since Korea, some $16 billion has been added to the spending side of the Federal ledger which means that Congress will appropriate in excess of $50 billion in the current fiscal year. It may be several billion more, since new requests are expected next year. Even with the interim tax bill, producing some $5 billion annually, revenues are not expected to exceed $42 billion. This would point to a deficit that may run anywhere from $7 to $12 billion; actually however, no such thing will happen in fiscal 1951 as far as the cash budget is concerned.

There are various reasons for it. The most important one is that there is a long time lag before the swollen appropriations can be translated into actual orders, and actual out payments. The Defense Department has to go through many stages of procurement planning before it lets contracts. Then industry will have to retool, or otherwise get ready. Then only production can get under way, and that is likely to be well into the new year.

When war production gets going in volume, only then will it have to be financed in volume. By that time, the 1951 tax bill presumably including EPT and other imposts will come to the rescue. To what extent remains of course to be seen and depends on the country's willingness to tax itself. Meanwhile actual new cash spending for arms in fiscal 1951 may come to no more than $6 to $8 billion and if so, the Treasury stands a good chance of approaching a balanced budget or at least get off with a far smaller deficit than many now fear.

### Large Debt Increase Can Be Avoided

Barring all-out war, the Defense Department estimates that it will cost about $25 billion annually for at least three years and possibly longer to build up and maintain our defenses, provided the Korean war is won by next summer. Only about half of this amount would constitute extra outlays over and above recent budget figures for military purposes. With business booming, making for a high tax take on the part of the Government, and with tax rates boosted and an EPT slapped on, it might well be possible to finance the defense effort without appreciably increasing the national debt, now standing at over $257 billion and some $6 billion higher than a year ago.

Just how Congress is expected to meet the situation is apparent from the fact that the Senate

Finance Committee next year will begin work on a new tax bill to provide a total of $7 billion in new revenue, on top of the $5 billion provided in the emergency tax bill. The $7 billion would include EPT to the tune of $4 to $6 billion. Altogether it would mean $12 billion in new taxes or just about enough to cover added expenditures. The latter might grow and this would upset calculations. But on the whole, with realistic taxation and further cutting of non-essential Government spending, the gap between income and outgo may not become too great.

Let's assume, for the sake of argument, that we actually manage to balance the budget, which is entirely possible if the will to do so exists. Would this eliminate the threat of price inflation? It hardly would, unless proper steps are taken to prevent credit inflation.

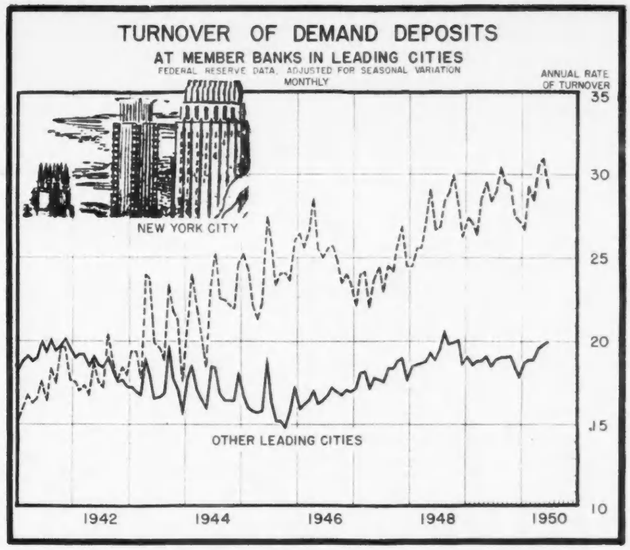
As it is, price inflation is already getting a head-start since counter-inflationary measures are not yet in operation or effective. Stepped-up defense spending has hardly begun yet; it took the mere prospect of it to spur demand and prices. Thus between mid-June and mid-July, the cost-of-living index climbed 1.4% to the highest point in almost two years. Price rises for manufactured goods are coming thick and fast not because of shortages but the fear of them, or the desire to beat rising prices. There is plenty of money around, and it is suddenly being spent faster than before. Eventually, as the defense program gets into high gear and cuts into civilian production, there will be more to spend and less to buy, and new decisions will then be necessary to hold down inflationary pressures.

Hence impending moves towards consumer credit curbs, mortgage credit restraints, and demands for tightening up on bank credit. One way to measure inflation is to watch the expansion of the money supply, particularly demand deposits, and these have been in a rising trend. Through most of 1949, the money supply was shrinking but in recent months it has been shooting up beyond its postwar peak in 1948. This is a warning sign.

Another is the faster rate of deposit turnover. People not only have bigger bank deposits but are using them more intensively. Check clearings, running some 25% above previous years, are hitting a pace comparable to yearend holiday buying periods; and the trend of bank debits has been strongly and persistently upward for months, with a particular spurt since June. Similarly, business loans, have been rising vigorously. Clearly, it is in the field of money and credit where a formidable inflation threat is found. Yet when it comes to the question of applying effective antidotes, our top fiscal agencies are not of one mind.

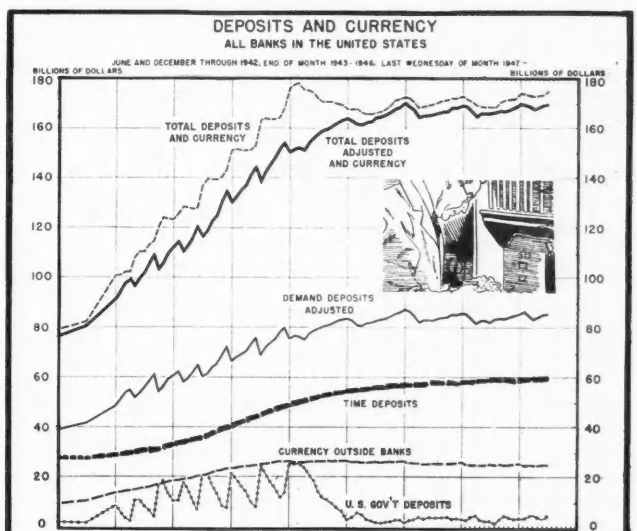
This was brought home again by latest developments. The Federal Reserve Board announced a boost in the rediscount rate at New York from 1½% to 1¾%, with other Federal Reserve Banks to follow. While the practical effect of this is not too great, it signals a new drive by the Board to tighten credit and make money more expensive. In the wake of this move, call money rates, commercial paper rates and yield rates on bankers acceptances all have been upped modestly. At the same time, the short term interest rate has been boosted by the Federal Reserve Open Market Committee lowering the prices at which it will buy short term securities.

But almost simultaneously, the Treasury gave blunt notice to the money market that it wants no increase in loan rates. It announced that it will offer two new 13-month Treasury issues paying 1¼% interest, the same rate it is now paying for similar issues. The two actions plainly signify a basic difference of opinion on what monetary policies are needed now.




It is a conflict that has been apparent for some time. The Treasury, responsible for Government borrowing and meeting interest payments on the national debt, has persistently advocated low interest rates to keep down debt service requirements and facilitate Federal financing, a policy frequently criticized as inflationary. The interest rate paid on Government obligations pretty much sets the pace for the entire interest structure including private loan rates, and low rates make it easier to borrow money.

The Federal Reserve Board made it clear where it stands on the subject of easy credit. In announcing the rise in the rediscount rate, it stated its readiness to use all means at its command to restrain further expansion of bank credit. In its anti-inflationary program, the Board had suggested that issues to be retired by the Treasury be replaced by a new one paying at least 2½% (to make it more attractive)



with no limitation on the amount of bonds that could be bought by non-bank investors. Prior to that, the Board repeatedly, though unofficially, has advocated tighter consumer and housing credit and higher taxes, limitation of open market purchases of Government securities by the Federal Reserve, higher short term interest rates and higher bank reserve requirements, as means of heading off inflation. By taking these steps, the Board feels, allocations, price and wage control, and rationing can be avoided unless there is total war.

### Pay-As-You-Go Not Enough

This program follows the line of thinking that while effective restraint of inflation depends on the willingness of the American people to tax themselves adequately so as to meet Government needs on a pay-as-you-go basis, taxation alone will not do the job unless there is parallel and prompt restraint in the area of money and credit. Doubtless the Federal Reserve Board is seriously alarmed by the inflationary forces now at work. It is trying to show the way by pointing out the superiority of fiscal and monetary anti-inflation measures over direct controls, particularly under limited mobilization. In line with its policy, further steps to tighten credit would not surprise; there is talk of a possible increase in reserve requirements of the banks in order to reduce their lending power by freezing a larger part of their assets.

The Treasury would hardly welcome this unless it were certain that defense expenditures could be met by higher taxes instead of requiring heavy borrowing, because if it must borrow heavily, it will have to look to the banks to buy large amount of Government securities which in itself is highly inflationary. But if banks have to comply with bigger reserve requirements, they will have less money to lend to the Treasury. Apart from that, it would tend to stiffen money rates whereas the Treasury, for obvious reasons, wants interest rates on Government securities held at present levels. This was made amply clear by its latest refunding action.

Conceivably, with ultimate monetary needs for defense still conjectural, the Treasury feels that now is not the time to set the pattern of interest rates to guide the financing of the defense effort, that the time will come later when the extent of necessary deficit financing has become clearer. If so, there is logic in this reasoning. The only drawback is that it also means at least deferment of anti-inflation action in a field where such action is badly needed.

### Congressional Reluctance to Stem Inflation

The will to apply inflation antidotes so far is conspicuously lacking on the congressional front. Reluctance to crack down on non-essential Government spending keeps inflationary fires boiling contentedly in various directions, via housing and farm price subsidies, various pork barrel projects and failure to divert ECA aid to European military needs. Yet elimination of non-essential spending would go far towards checking inflation; certainly there is no need today for price sustaining measures, ambitious social projects or anything that smacks of pump-priming.

Unless such antidotes are applied, further inflation is a foregone conclusion and in that event the Treasury has good grounds for concern if faced with the need to raise many billions not only for war and defense but for uncurtailed squandering on other things. The trouble is that truly effective measures are politically unpopular, hence doubtful; and because this is so, apprehension of inflation is certainly not without justification.

There has never been a major war that did not bring in its wake some degree of inflation, because it was never feasible, politically or otherwise, for the Government to take away from the people in taxes, or absorb in form of bond investments, as much as it was spending for the war effort. Such spending being unproductive, excess purchasing power and shortages were a logical consequence, with price-stimulating effects despite attempts to hold them down via controls. Inflation simply results from an increase in the supply of dollars chasing goods without a commensurate rise in the goods supply.

The process by now is well known, but it can be stopped by resolute measures, taken in time. As stated, these include sufficient taxation and other efforts to balance the budget (by cutting down non-essential Government spending). Equally important is to keep production of civilian goods as high as possible, after military needs are met, to assure an ample goods supply and avoid serious shortages. In this respect, considering our greatly increased productive capacity and the limited nature of mobilization to-date, we are far better situated than in previous wars and this should help considerably in reducing the inflation potential. An important point is to avoid strangulating Government controls over production.

### Price Control Not Ideal Solution

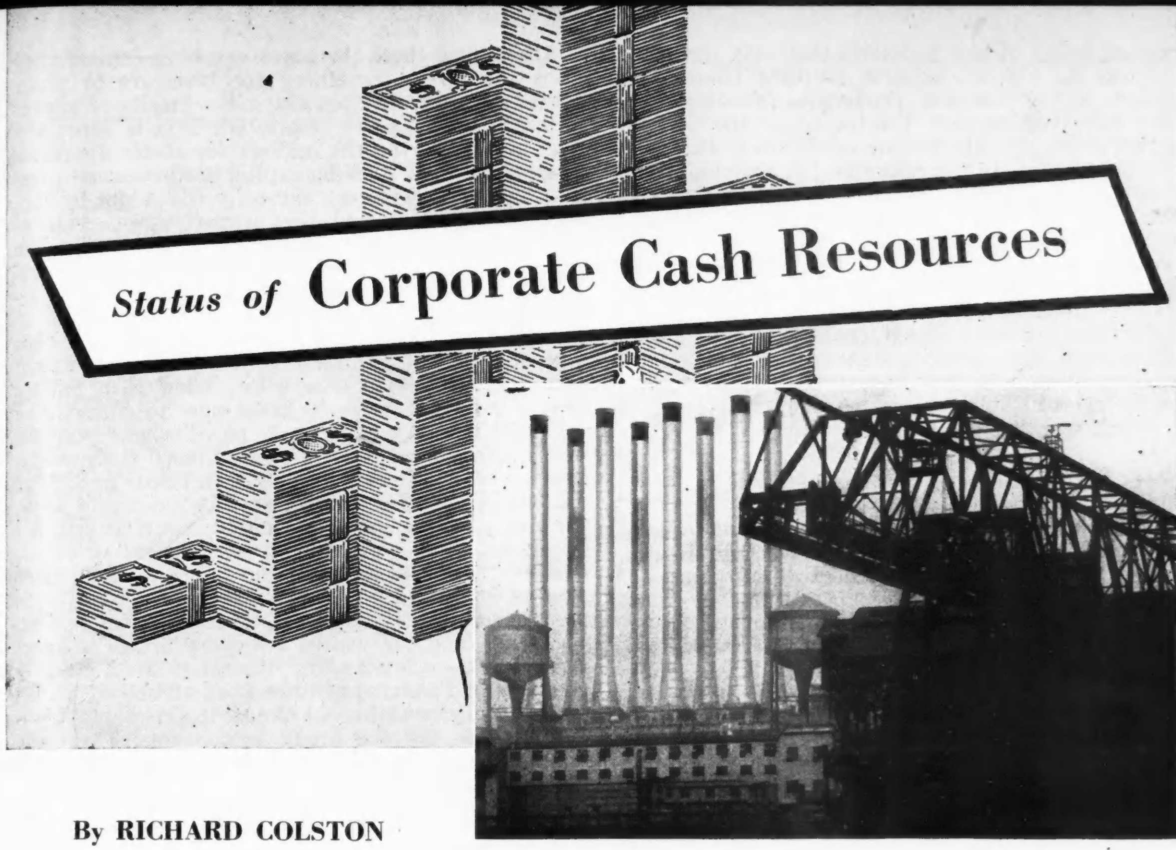
It is for this reason that price control, at this juncture, is not regarded as an ideal solution. For one, it could not be effective without wage control and other restrictions, that is complete economic regimentation which invariably works against a balanced production effort. Even then, it could only postpone but hardly prevent the manifestations of inflation as our experience during and after World War II has shown. As soon as price control was removed, the inflationary factor was strongly felt.

Still price control may eventually become necessary, because we may reach the point where wage control will become imperative, and we cannot have one without the other. The new wave of wage demands by organized labor is not a good omen; and it seems probable that there will be no wage freeze until after at least another round of wage hikes. If so, the effect on prices must be obvious, since wages are the largest factor in production as well as personal income. Wage hikes are clearly inflationary.

To sum up, inflation can be prevented by keeping purchasing power in line with the available goods supply. The degree of inflation we shall have will be determined by the gap between the two, that is the excess of disposable income, the money and credit supply over the goods supply. Hence the need to throttle down the former by taxes, absorption into bond investments and credit restraints; and to maintain highest possible civilian production within the limitations imposed by military requirements.

The war in Korea has had such upsetting effects upon our prices and our economy because the country was already in an in- (*Please turn to page* 639)

# Status of Corporate Cash Resources



By RICHARD COLSTON

The abrupt and important transit of the economy into limited military production, at a time when business activity was already booming, focuses attention on the status of corporate financial resources. Despite record accumulations of working capital in postwar, new elements coming to the fore suggest that drains on liquid resources may become substantial, hence inviting caution lest liquid asset holdings may prove inadequate to meet increased requirements, or to assure dividend stability.

The foregoing of course applies in greatly varying degree, depending on basic working capital needs in different forms of enterprise and the extent they may embark upon military production. The field to consider logically narrows to manufacturers, whose current capacity in relation to present requirements and prospective activities may prove significant, whose conversion costs would be considerable and who would be forced to carry much larger inventories at relatively high prices. Also entering the picture is the prospect for profit restrictions on Government business, rising operating costs, and tax inroads on earnings normally relied upon to create capital. In combination, these influences may impose quite a strain on working capital positions, intensified by the probability that all corporations will soon have to pay income taxes more promptly than before, on a quarterly "current" basis, and at higher rates at that. This will do away with the temporary use of tax reserves as working capital, as was often the case in the past.

In a broad manner, of course, the business world never was so strongly fortified, physically and financially, to maintain high level production and expand military output as at the present time. According to the Securities and Exchange Commission, the net working capital of U. S. corporations at the end of March, 1950 reached a new record level of $69 billion, up $1.3 billion in the short space of three months. This new peak compares with $51.6 billion at the end of World War II and a modest $24.5 billion in 1939.

The showing was even more encouraging, considering that in the first quarter the corporations invested $3.4 billion in new facilities, more than covered by $3.6 billion accruals from depreciation and retained earnings. To achieve the $1.3 billion gain in working capital, long term borrowings accounted for about $600 million and sales of $500 million stock added to the tally. More importantly, corporations held more than $40 billion cash and governments on March 30, an amount equal to 72% of current liabilities compared with 61% at the end of 1948 and about 45% in years immediately preceding 1940. Hence corporate liquidity has continued to improve impressively.

### Chief Gain Among Manufacturing Companies

The SEC states that manufacturing companies accounted for most of the increase in working capital shown for all corporations in the March quarter. Trade companies, railroads and mining concerns experienced a small decline in net current assets, while an increase by electric and gas utilities and communication companies was only moderate. The showing presented, accordingly, may be considered quite pertinent to our discussion. As said, however, full allowance must be made for the widely varying financial status of individual companies and the in-

creasing array of new problems they may now face.

While the amount of new military business in relation to the national product is often cited as being relatively modest, the impact of the decision to rearm on manufacturing costs since June has been significant. In the scramble to accumulate inventories in almost every industry, prices for raw materials have risen sharply, and with labor unions in every field being granted, or asking generous wage boosts, it is hard to envisage how unit valuations in inventories stand much chance of receding. Add to this the prospect that in many situations, military production will supplement civilian output, rather than merely offset a curtailment in the latter, and it can readily be seen that inventories, both physical and in terms of dollar valuation, may sharply spurt to strain working capital.

### Possibility of Conversion Costs

As for conversion costs, for some time to come these might cut into cash holdings considerably, although through accelerated amortization, as in the last war, or by Federal assistance, these problems may be gradually ameliorated. Some industries, such as carpet manufacturers, had to shoulder heavy conversion costs in the last war in substituting equipment to make duck. While the Government has numerous plants in stand-by condition that could be reactivated, practical considerations more frequently may induce managements to construct new facilities.

As a sample, International Harvester recently received a letter of intent involving a large military order and promptly took steps to build a sizable new plant in Chicago, specially adapted to the prospective work, although prices to be paid for the goods, or their costs, as yet have not been determined. Even where present facilities are large enough to absorb military production, entirely new equipment will have to be installed by many concerns at a time when tool and machine prices have soared.

Proposals now being considered by Congress to shorten the period during which corporate taxes must be paid are another matter that seems likely to take a slice out of working capital. Corporate taxes under current rules could be paid quarterly in the following year, thus leaving them available to bolster working capital for quite a while. As matters now look, such an advantage will soon disappear when corporate tax payments, just as already in force in the case of individual income taxes, will be placed on a virtual "pay-as-you-go" basis. In consequence, many corporations will have to revise their working capital potentials very substantially.

### The Tax Problem

This problem will become more acute when the new tax rates are announced and the question settled as to how far back they will be made retroactive. In reporting net earnings for the first half of 1950, a few conservative managements have set up tax reserves to allow for a prospective tax rate of around 45%, but the number has been very few. Furthermore, in no case has allowance been made for the imposition of excess profit taxes, as neither their effective date nor their rate has yet been determined. Nevertheless, their weight will sooner or later have to be shouldered and their impact on cash resources must be anticipated.

Altogether, these threats to working capital positions add up to something for investors to study rather carefully in appraising the merits of shares in which they may be interested. This is especially true in considering the outlook for stable dividends in some cases. If working capital needs become pressing, company directors naturally will adopt by conservative policies, and the proportion of retained earnings may have to be enlarged at a time when higher depreciation on more costly postwar improvements, heavier operating costs and taxes seem certain to impinge on net earnings.

On the brighter side of the picture is the fact that a great many—probably the majority—of large manufacturers will experience little difficulty in finding a satisfactory answer to these new problems, and will continue in a position to pay liberal dividends. The larger concerns have strengthened their working capital positions generally at a faster pace than most of the smaller enterprises. At the end of 1949, for example, the ratio of current assets to current liabilities of all corporations with assets in excess of $100 million expanded from 2.7 to 3, while holdings of cash and government securities relative to current liabilities rose to 1.16 from .84 in the preceding year. In other words, for every dollar of short term liabilities outstanding, the composite list of big concerns had on hand another $1 of virtual cash with which to pay, creating an almost impregnable financial position for the group as a whole. The basic advantage, not the least also from an investment standpoint, of ample working capital to cushion any prospective shrinkage of liquid resources needs hardly be stressed, of course.

### Some Examples

In the appended tabulation, we present statistics pertinent to 18 selected manufacturers, showing the composition of their current assets as of June 30, 1950, compared with a year earlier, together with their current liabilities, net working capital and current ratios. To clarify their position further, we include long term debit outstanding on the dates cited, as well as their total assets, capital and surplus.

Let's examine a few of these situations and briefly discuss them from the angle on which our article is based. American Brake Shoe Company is well situated to step up production without incurring heavy conversion costs, and directly or indirectly this specialist in the manufacture of railway and automotive brake shoes and linings, plus a long list of alloy castings and forgings, should receive a good deal of military business.

In postwar, the company substantially increased its capacity, but due to the lag in demand for railroad equipment since the end of 1948, its activity lessened, leaving considerable room for expanding production. To some extent the sharp step-up in production of freight cars will take up the recent lag in demand for the company's output and tend to enhance its earnings potentials. From our table it will be seen that the company's financial status is quite strong, with cash and governments more than covering all current liabilities. A current ratio of 3.5 should comfortably permit expanded operations with little or no strain.

American Woolen Company, despite an abrupt downtrend in earnings last year, managed to preserve its working capital of $56.8 million as of June 30 at exactly the same (*Please turn to page* 646)

## *Recent Balance Sheet Changes of Selected Companies*

| | ($ million) | | | | | | | ($ million) | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Cash | Marketable Securities | Receivables | Inventories | Current Liabilities | Working Capital | Current Ratio | Long-Term Debt | Capital and Surplus | Total Assets |
| American Brake Shoe | $ | $ | $ | $ | $ | $ | | | | |
| June 30, 1950 | 8.0 | 1.0 | 9.6 | 11.6 | 8.5 | 21.8 | 3.5 | — | 42.7 | 71.0 |
| June 30, 1949 | 9.4 | — | 9.1 | 12.9 | 10.2 | 21.2 | 3.0 | — | 41.6 | 71.8 |
| American Woolen Co. | | | | | | | | | | |
| June 30, 1950 | 6.8 | .1 | 22.2 | 63.9 | 36.4 | 56.8 | 2.5 | .7 | 63.8 | 126.5 |
| June 30, 1949 | 5.2 | .1 | 14.7 | 48.5 | 11.9 | 56.8 | 5.7 | .7 | 61.4 | 101.7 |
| Atlas Powder | | | | | | | | | | |
| June 30, 1950 | 3.5 | 2.4 | 4.7 | 5.1 | 3.4 | 12.5 | 4.5 | — | 20.0 | 31.8 |
| June 30, 1949 | 2.4 | 3.0 | 4.4 | 5.5 | 3.3 | 13.6 | 5.1 | 2.7 | 18.9 | 33.3 |
| Bigelow Sanford | | | | | | | | | | |
| June 30, 1950 | 2.9 | — | 10.9 | 26.0 | 13.5 | 26.4 | 2.9 | 4.8 | 30.3 | 53.1 |
| June 30, 1949 | 4.5 | — | 6.6 | 24.5 | 9.3 | 26.3 | 3.8 | 5.0 | 28.7 | 47.5 |
| Borg-Warner | | | | | | | | | | |
| June 30, 1950 | 33.3 | 32.3 | 31.0 | 39.0 | 42.3 | 93.5 | 3.2 | — | 121.7 | 184.6 |
| June 30, 1949 | 38.2 | .1 | 24.0 | 42.9 | 18.4 | 86.9 | 5.7 | — | 99.9 | 148.6 |
| Caterpillar Tractor | | | | | | | | | | |
| June 30, 1950 | 10.6 | 7.9 | 33.2 | 53.1 | 23.7 | 81.3 | 4.4 | 19.8 | 98.7 | 167.3 |
| June 30, 1949 | 8.5 | — | 29.0 | 55.7 | 33.4 | 59.9 | 2.8 | 20.0 | 81.2 | 159.6 |
| Chrysler | | | | | | | | | | |
| June 30, 1950 | 177.6 | 164.6 | 58.6 | 156.6 | 220.3 | 337.3 | 2.5 | — | 469.4 | 689.7 |
| June 30, 1949 | 138.2 | 89.8 | 39.8 | 159.7 | 171.4 | 256.3 | 2.4 | — | 405.3 | 576.8 |
| Clark Equipment | | | | | | | | | | |
| June 30, 1950 | 5.4 | 4.0 | 4.1 | 11.1 | 5.9 | 18.8 | 4.1 | 5.6 | 24.4 | 37.5 |
| June 30, 1949 | 7.3 | 3.0 | 3.4 | 10.7 | 5.7 | 18.7 | 4.2 | 6.0 | 21.4 | 35.8 |
| Cluett Peabody | | | | | | | | | | |
| June 30, 1950 | 4.6 | — | 6.3 | 28.1 | 4.7 | 34.5 | 8.2 | 5.0 | 24.9 | 49.5 |
| June 30, 1949 | 2.4 | — | 8.7 | 35.2 | 7.9 | 38.4 | 5.8 | 10.0 | 24.2 | 55.9 |
| Douglas Aircraft | | | | | | | | | | |
| May 31, 1950 | 11.8 | 14.0 | 7.0 | 30.3 | 18.5 | 55.4 | 4.0 | — | 73.4 | 93.2 |
| May 31, 1949 | 11.0 | 21.4 | 7.9 | 26.1 | 19.9 | 58.7 | 3.9 | 3.6 | 73.0 | 97.8 |
| Dow Chemical | | | | | | | | | | |
| May 31, 1950 | 17.1 | 26.1 | 30.0 | 33.9 | 43.9 | 63.4 | 2.4 | 62.5 | 172.5 | 327.2 |
| May 31, 1949 | 11.6 | 5.1 | 24.5 | 43.1 | 34.7 | 49.6 | 2.4 | 67.2 | 119.7 | 294.3 |
| General Mills | | | | | | | | | | |
| May 31, 1950 | 14.7 | 6.9 | 24.1 | 30.0 | 24.3 | 53.2 | 3.1 | — | 68.6 | 126.7 |
| May 31, 1949 | 14.4 | 16.9 | 21.6 | 23.2 | 22.2 | 55.6 | 3.5 | 9.4 | 60.9 | 127.1 |
| General Motors | | | | | | | | | | |
| June 30, 1950 | 304.3 | 913.8 | 349.5 | 782.2 | 661.9 | 1.688.0 | 3.5 | — | 2.155.8 | 3.418.1 |
| June 30, 1949 | 281.9 | 464.7 | 287.9 | 822.7 | 512.3 | 1.344.9 | 3.6 | 125.0 | 1.703.9 | 2.903.5 |
| Goodrich (B. F.) Co. | | | | | | | | | | |
| June 30, 1950 | 25.6 | 4.2 | 75.2 | 89.8 | 32.4 | 162.6 | 6.0 | 39.6 | 136.9 | 282.2 |
| June 30, 1949 | 22.6 | .8 | 57.6 | 98.7 | 25.1 | 154.6 | 7.1 | 41.4 | 120.8 | 266.4 |
| Hercules Powder | | | | | | | | | | |
| June 30, 1950 | 14.7 | 16.2 | 11.9 | 15.7 | 14.5 | 44.1 | 3.9 | — | 57.7 | 95.0 |
| June 30, 1949 | 12.7 | 10.0 | 9.1 | 16.7 | 12.7 | 35.9 | 3.8 | — | 53.4 | 87.2 |
| Int. Nickel | | | | | | | | | | |
| June 30, 1950 | 24.7 | 62.8 | 19.1 | 62.1 | 27.3 | 141.5 | 6.1 | — | 247.8 | 318.6 |
| June 30, 1949 | 27.4 | 71.4 | 14.3 | 71.2 | 27.4 | 157.1 | 6.7 | — | 247.2 | 329.0 |
| Joy Manufacturing | | | | | | | | | | |
| June 30, 1950 | 7.3 | 5.0 | 7.9 | 18.8 | 7.3 | 31.8 | 5.3 | 7.5 | 32.7 | 48.3 |
| June 30, 1949 | 6.0 | — | 9.4 | 20.9 | 7.2 | 29.0 | 5.0 | 5.0 | 32.6 | 45.7 |
| Martin, (Glenn L.) Co. | | | | | | | | | | |
| June 30, 1950 | 16.6 | — | 2.2 | 13.5 | 20.9 | 12.5 | 1.6 | 2.9 | 20.4 | 44.4 |
| June 30, 1949 | 9.9 | — | 3.6 | 9.8 | 21.5 | 4.2 | 1.2 | 7.0 | 15.5 | 44.1 |
| Minneapolis Hon. Reg. | | | | | | | | | | |
| June 30, 1950 | 5.1 | 2.9 | 11.7 | 22.4 | 9.9 | 32.2 | 4.2 | 5.0 | 32.2 | 58.0 |
| June 30, 1949 | 3.8 | 5.0 | 8.7 | 19.2 | 6.2 | 30.6 | 5.9 | 7.5 | 25.6 | 50.3 |
| Mohawk Carpet | | | | | | | | | | |
| July 1, 1950 | 2.2 | — | 7.2 | 14.5 | 10.8 | 13.3 | 2.2 | — | 28.3 | 39.1 |
| July 1, 1949 | 3.4 | — | 4.0 | 13.7 | 6.8 | 14.4 | 3.1 | — | 26.3 | 33.2 |
| Penney (J. C.) Co. | | | | | | | | | | |
| June 30, 1950 | 37.7 | 22.0 | .7 | 165.2 | 78.0 | 147.7 | 2.8 | — | 184.0 | 264.9 |
| June 30, 1949 | 35.0 | 15.0 | 1.1 | 163.8 | 84.5 | 130.5 | 2.5 | — | 165.9 | 253.2 |
| Penna-Dixie Cement | | | | | | | | | | |
| June 30, 1950 | 3.2 | — | 1.9 | 3.6 | 18.1 | 7.1 | 4.9 | 1.2 | 14.8 | 18.1 |
| June 30, 1949 | 3.1 | .4 | 1.3 | 4.4 | 17.4 | 6.9 | 4.0 | 1.6 | 13.1 | 17.4 |
| St. Joseph Lead | | | | | | | | | | |
| June 30, 1950 | 10.0 | 10.0 | 5.9 | 9.0 | 9.5 | 25.7 | 3.6 | — | 50.6 | 62.4 |
| June 30, 1949 | 5.2 | 7.4 | 3.7 | 13.8 | 8.9 | 21.8 | 3.4 | — | 48.7 | 60.9 |
| Tidewater Asso. Oil | | | | | | | | | | |
| June 30, 1950 | 17.5 | 7.4 | 24.2 | 49.0 | 33.3 | 64.9 | 2.9 | .5 | 247.3 | 284.2 |
| June 30, 1949 | 9.0 | 1.7 | 25.5 | 60.4 | 36.3 | 61.4 | 2.7 | .9 | 224.0 | 288.8 |
| United Aircraft | | | | | | | | | | |
| June 30, 1950 | 23.9 | 10.0 | 28.5 | 63.6 | 25.0 | 83.0 | 4.3 | — | 96.7 | 152.9 |
| June 30, 1949 | 14.4 | 10.1 | 23.8 | 70.0 | 17.6 | 77.8 | 5.4 | — | 90.4 | 139.2 |

# ARE RAIL BONDS *Now Attractive?*

By ROGER CARLESON

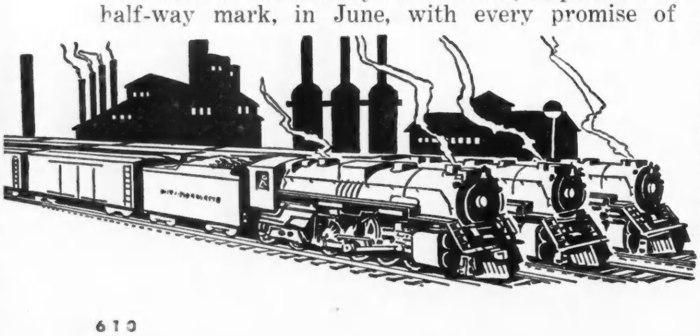
★ ★ ★

Internal factors—pertaining directly to the railroad industry's promising earnings outlook—as well as external influences stemming from the Treasury's determined stand to maintain an easy money policy and low interest on all forms of credit in the face of growing opposition—have combined to place railroad bonds in the most favorable position of years.

Add to these basic considerations the sheltered tax status enjoyed by fixed interest bearing securities, regardless of EPT levies, or higher regular imposts, and a well-founded case can be formulated for the desirability of including selected of rail obligations in diversified portfolios.

At the same time, the investor must realize that bonds of railroad companies differ greatly in quality, hence they must exercise discrimination; and they should also understand that the reason yields are appreciably larger than on industrial or utility liens, is that greater risks are present and that the industry has had many rises and falls in the last 25 years.

Although the industry in 1950 has been beset by many ills, notably through work stoppages in fields which contribute heavily to revenues, it passed the half-way mark, in June, with every promise of having its most prosperous peacetime year in the last two decades with the single exception of 1948.



If the investor is seriously thinking of becoming railroad "bond-minded" he should at all times know what progress the industry is making in improving its position, if any. That is why the 1950 picture is so interesting and enlightening; it offers real evidence for the returning popularity of carrier bonds, especially of the speculative and semi-speculative variety which more truly reflect sentiment than highest grade liens which move narrowly in accordance with the primary investment market.

These are the highlights of the industry's situation as the final quarter of the year approaches:

(1) Total operating revenues should approximate $9,000,000,000. This would establish a new peacetime record exceeded only by the $9,671,700,000 gross of 1948 which surpassed all years. The gain over 1949 should amount to more than $400,000,000.

(2) Approximately $1,000,000,000 would be the industry's "available" for fixed charges compared with $900,700,000 for 1949 and $1,172,000,000 for 1948.

(3) All fixed charges combined for Class 1 carriers should not exceed $410,000,000. This, especially important from the standpoint of bondholders, would establish a brand new low.

(4) Such fixed charges, it is estimated, will be covered 2.50 to 2.60 times. If the latter figure is attained, a new modern record will be established with the sole exception of 1948 when all charges were earned 2.76 times. The highest coverage in the war period was 2.55 times, in 1943.

(5) Net income, after all charges, fixed and contingent, can be estimated at between $590,000,000 and $610,000,000, depending on the ultimate tax treatment of corporations for the remainder of the year. In 1949 combined Class 1 net was $438,100,000; in 1948, $698,100,000; in 1947, $478,9900,000; in 1946, $287,100,000; in 1945, $450,400,000, and in 1944, $667,200,000.

### Funded Debt Greatly Reduced

In reviewing the foregoing statistics, net income is far less important in appraising the railroad bond situation than the other figures. Fixed and miscellaneous interest charges come prior to taxes, although as a matter of common practice, the degree of coverage, as in the accompanying tabulation, is *after taxes*. Obviously, this factor of safety would expand if it were calculated *before taxes*.

Railroads have made tremendous strides in recent years, particularly in the period, beginning with 1938. Funded debt of all kind, except that portion which remained unpaid after maturity, decreased from $9,935,000,000 in 1938 to $8,984,000,000 in 1943. Then, from the latter year, it declined to $6,852,000,000 in 1948. No later official statistics are available, but a further contraction is known to have taken place in both 1949 and 1950, largely through open market bond purchases by the roads

themselves. At the same time, despite capital expenditures of more than $7,000,000,000 in the 1940-49 decade on top of the great reduction in debt, the industry's working capital position was strengthened to peak levels, and at the close of 1949, net quick assets of all Class 1 railroads approximated $1,370,000,000—up from about $535,000,000 in 1940.

The industry has thus come a long way from the unsettled bankruptcy era of the 1930's, and what has been done to reduce debt and charges, build up finances and improve operating efficiency has been responsible for growing and well-maintained friendliness in investment circles toward rail bonds.

### High Grade Rail Bonds

No better evidence of this is needed than the fact that as a group, highest grade railroad bonds at the present time sell almost exactly on a par with similarly rated public utilities—on about a 2.69 yield basis—and are held in only slightly less esteem than top industrial liens which sell on about a 2.50 yield basis.

Broadly speaking, the railroad bond market may be divided into three major classes, although many other shadings of quality are possible and are used by investors.

The first of these groups would include bonds which range in grade from high to highest, and ten representative issues of this type are included in the appended table. However, because the list of top quality rails is comparatively small and because the average investor is usually interested in higher yields, he must be satisfied with something less in quality—in good to medium grade bonds, which form the second class.

This is a much larger and more comprehensive group and it embraces most of the important systems of the nation. There is a wide range of choices beyond those shown and for the most part regular interest payments are assured.

Finally, in order to obtain still more in the way of return and generally to participate in price appreciation which the general market may experience, investors may turn to any one of a hundred, or more, speculative or low-grade bonds, which comprise the third main segment of the rail bond group.

This particular section of the bond market can, in turn, be sub-divided into three parts. The first represents issues of the fixed interest category; the second is made up of "income liens" which do not enjoy effective mortgage protection, and the third comprises issues of roads undergoing reorganization.

The latter list has diminished steadily in the last ten years as case after case has been completed and new securities issued. Only a few bankruptcy or capital adjustment programs, remain to be completed and of these, only the Missouri Pacific is of much importance in point of size. No bonds of bankrupt systems have been included in our table.

### Medium and Lower Grade Issues

Assuming the investor is willing to give up something in the way of quality to secure higher yields, medium and lower-grade bonds are most attractive at this time. Such issues enjoy an advantageous position in reflecting activity predicated on what the individual carrier is doing in the way of earnings. They also are favored, under existing market conditions, by a natural overflow of investment money seeking an outlet other than common, or secondary preferred shares. (*Please turn to page* 644)

***Statistical Data on Diversified List of Railroad Bonds***

| | Amount Outstdg. ($ million) | Call Price | Fixed Chgs. x Earned 1940 | 1947 | 1948 | 1949 | Price Range 1950 | Recent Price | Yield % |
|---|---|---|---|---|---|---|---|---|---|
| High Grade— | | | | | | | | | |
| Atch., Top. & S.F. Gen. 4s, 1995 | $152 | *NC | 2.35 | 8.45 | 10.90 | 9.00 | 131⅜-126 | 129 | 2.86 |
| Chesapeake & Ohio 4½s, 1992 | 48 | *NC | 5.00 | 5.05 | 4.15 | 1.98 | 133⅝-124 | 131 | 3.09 |
| Ch., Burl. & Quincy 1st 3½s, 1985 | 59 | 105½ | 1.45 | 5.82 | 5.85 | 3.65 | 104 -100 | 102 | 3.38 |
| Great Northern Gen. 3⅛s, 1990 | 37 | 105 | 1.75 | 3.93 | 4.65 | 3.45 | 102 - 96 | 101 | 3.09 |
| N. Y., Ch. & St. L. Ref. 3s, 1986 | 39 | 105⅝ | 1.50 | 3.35 | 5.35 | 4.45 | 100½- 97 | 100 | 3.00 |
| Norfolk & West. 1st 4s, 1996 | 38 | *NC | 15.65 | 18.40 | 21.45 | 11.80 | 133½-126 | 129 | 2.98 |
| Pennsylvania Cons. 4½s, 1960 | 48 | *NC | 1.60 | 1.20 | 1.58 | 1.26 | 115 -112 | 133½ | 2.93 |
| Sou. Pac. SF Term. 1st 3⅜s, 1975 | 22 | 103 | 1.31 | 2.70 | 2.90 | 2.48 | 103½-100 | 101 | 3.32 |
| Texas & Pacific 1st 5s, 2000 | 24 | *NC | 1.40 | 2.75 | 3.45 | 2.75 | 133½-128 | 133½ | 4.81 |
| Virginian 1st 3s, 1995 | 58 | 110⅝ | 3.95 | 5.05 | 4.75 | 2.68 | 101 - 94 | 99 | 3.02 |
| Medium Grade— | | | | | | | | | |
| Atlantic Coast Line 4½s, 1964 | 32 | *NC | 1.30 | 2.48 | 2.93 | 2.82 | 108 -101½ | 106 | 3.94 |
| Ch., Mil., St. P. & Pac. 1st 4s, 1994 | 57 | 104¾ | 1.05 | 4.70 | 4.00 | 3.15 | 104½- 99⅞ | 103 | 3.86 |
| Chicago Gt. West. 1st 4s, 1988 | 7 | 100 | 2.28 | 3.49 | 5.15 | 3.75 | 94 - 86 | 94 | 4.32 |
| Delaware & Hudson 1st 4s, 1963 | 23 | 107½ | 1.15 | 3.50 | 4.15 | 2.25 | 99⅜- 90 | 96 | 4.41 |
| Erie 1st Cons. G 3⅛s, 2000 | 40 | 105½ | 1.02 | 2.75 | 4.30 | 2.60 | 88 - 80 | 88 | 3.68 |
| Illinois Central Ref. 5s, 1955 | 7 | 107½ | 1.10 | 2.40 | 3.05 | 2.55 | 108 -106¾ | 107 | 3.46 |
| Pennsylvania Gen. 4½s, 1965 | 125 | *NC | 1.60 | 1.20 | 1.58 | 1.26 | 105¾- 99⅜ | 105 | 4.05 |
| Southern Ry. Cons. 5s, 1994 | 92 | *NC | 1.45 | 1.95 | 2.50 | 1.93 | 121 -111 | 119 | 4.01 |
| #Speculative Grade— | | | | | | | | | |
| Baltimore & Ohio 1st B 4s-5s, 1975 | 66 | 105 | 1.85 | 1.90 | 2.55 | 1.85 | 98 - 84⅛ | 98 | 5.10 |
| Central RR of N. J. 3¼s, 1987 | 48 | 100 | 0.45 | 0.95 | 1.65 | 1.95 | 50⅛- 40⅛ | 49 | 6.63 |
| Chicago & North. West. Inc. 4½s, 1999 | 75 | 101⅛ | 3.80 | 5.12 | 5.80 | 2.75 | 66 - 50½ | 65 | 6.92 |
| Illinois Central 4¾s, 1966 | 35 | 102½ | 1.10 | 2.40 | 3.05 | 2.55 | 97 - 88 | 94 | 5.12 |
| Lehigh Valley A 4s, 2003 | 9 | 100 | 0.95 | 0.80 | 1.50 | 1.20 | 63 - 50 | 63 | 6.34 |
| Missouri-Kan.-Tex. Adj. 5s, 1967 | 13 | 100 | 0.50 | 2.35 | 3.90 | 3.30 | 99½- 72¼ | 97 | 5.16 |
| N. Y. Central Ref. 4½s, 2013 | 96 | 110 | 1.20 | 1.06 | 1.35 | 1.25 | 72½- 58¾ | 71 | 6.34 |
| St. Louis-San. Fran. Inc. 4½s, 2022 | 45 | 100 | 0.45 | 3.80 | 3.95 | 3.25 | 75 - 55 | 74 | 6.08 |
| Seaboard Air Line Inc. 4½s, 2016 | 44 | 100 | 0.65 | 5.00 | 6.55 | 6.15 | 90¼- 75½ | 90 | 5.00 |

*Non-callable. #Yields on this group are on current return basis.


# POLITICS AS USUAL

By E. K. T.

**HOPE** that partisan politics might be laid aside after the first clash of charges over responsibility for the war in Korea evidently won't be realized. Scandalous situation on Capitol Hill is the manner in which the world situation is being taken advantage of, tortured to promote the contending parties. Impact of the war upon legislators' thought perhaps is typically reflected in the request of Senator Matthew M. Neely (granted) to postpone vote on economic controls so he might attend a party rally. Neely's appraisal: "The most important thing this side of the grave to the people of the world is the success of the democratic party in the coming elections."

**WASHINGTON SEES:**

Labor-management war in the railroad industry was just another touch of grief to a system which has both the military and the civilian agencies in Washington worried. Heads of these departments realize the roads cannot be rehabilitated by the stroke of a Presidential pen or by accord between the embattled operators and workers. The problems are deep-rooted and numerous. Their solution may call for drastic measures before adequate rail transportation can be expected.

The overworked term "crisis" is being applied to the rail situation by government specialists who aren't thinking only in terms of wages, hours, and interpretation of rules. They shudder to ponder what might have happened to the national transportation system were it not for the almost 100 per cent increase in over-the-road freighting system in the past decade. If trucking had not lifted huge tonnage from the tracks, the backlog of rail shipping, bad as it is considered to be now, would be immeasureably worse. The supply of freight cars is at one of its lowest points in recent history; new ones are going into service only to about the same extent as old ones are being scrapped. And there are more frequent, and more lengthy, layups of ancient equipment for repairs.

On the horizon are additional worries: movement of war materiel isn't near its peak yet, and there is a grain crop to be carried soon. Troop movements may yet strain the supply of passenger cars.

Under serious consideration in Washington is immediate allocation of steel to railroads to construct equipment; or, as an alternative, building of cars by the government as a defense item—which it is.

**FARM LAND** prices appear to be following the pattern usual in time of war or threatened war—going upward. The Korean situation, says the Bureau of Agricultural Economics, has raised the income index to a point not touched in the past three years. That is attracting purchasers, marking up selling prices. Department of Agriculture points out that mortgage debt level could be raised higher without danger to relieve other pressures.

**CHEERING** word from two well-informed sources should go far to allay growing fear of a long war, and of one disruptive of existing business and industry. A congressman emerging from a Presidential conference quoted Mr. Truman as optimistic of early decisive success in Korea, gave a report faintly reminiscent of the cry "out of the trenches by Christmas," heard in World War I. And Commerce Secretary Sawyer added this: "There is nothing in the fundamental situation which justifies any idea that we can't meet, with reasonable restraint, military demands in Korea, or anything that follows."

**CONGRESS,** at least the upper house, seems determined to force the President's Council of Economic Advisers to return to the role which it was created to fill, namely, to advise the President. The Council crashed on the rocks of dissent over whether CEA was to carry its functions beyond the White House and lobby before congress. Dr. Edwin G. Nourse gave up the chairmanship rather than go along on that notion with Leon Keyserling; then Keyserling was appointed chairman with implied direction to essay the role of legislative advocate. But the senate, drafting economic controls, has ignored Keyserling. The freeze-out is considered significant, setting precedent for future policy.

# As We Go To Press

Proof already is at hand that 1950 may be a bad election year for sitting United States Senators. They're faring worse in primaries than house members are -- and that goes for both parties. The reason for this is not clear, but it is probably a good guess that the country is dissatisfied with the handling of international affairs in the past two years, is taking it out on members of the house of congress identified with treaty approvals and having the most effective voice in creating and implementing world politics.

There are other reasons, naturally. Several sitting Senators entered primaries opposed by House members who are tops in campaigning and have outstanding records. Senator Pepper fell victim to Rep. Smathers on those scores. Rep. Monroney had little difficulty disposing of veteran Senator Thomas in Oklahoma. Senator Taylor of Idaho, carrying the stigma of party desertion plus that of consorting with Henry Wallace's 1948 red fringe, faced his predecessor in the upper house, D. Worth Clark, and went down.

Taylor was the seventh Senator to be defeated out of 21 who had primary contests. Altogether 220 House members were challenged in primary fights, but only four failed to win. Nine Senators still await re-nomination ... or defeat. One of these is Senator Tydings of Maryland, a veteran who has the fight of his life on his hands. He is expected to clear the primary, but it may be a different story in the election: his part in clearing State Department employees of red charges levelled by Senator McCarthy hasn't settled well in the rural areas of the Free State. Tydings was chairman of the inquiry committee, helped write the report, was its public defender.

One of the smallest states in the Union, Connecticut is a major fighting ground this year. The state usually votes democratic in national elections when the Presidency is involved, goes into the republican column at other times. And two sitting democratic Senators are running this year -- Brien Mc Mahon and William Benton. The GOP isn't sparing money or effort to pick up those seats. Chester Bowles, running for re-election as governor in the Nutmeg State, reportedly has lost much ground in the past two years (he barely slipped into office two years ago -- a few hundred votes); if the reports are true, he may drag the entire ticket down to defeat.

Both parties expect the Korean situation to help them. Obviously one must be wrong. There's no dependable precedent. In past wars the party in power lost congressional seats, but in no instance was there anything approaching a rout. The republicans would have to hold all present strength, defeat nine democrats to win the senate, need almost 50 house seats to control the lower branch. That's a large order to fill, especially when the plea "don't change horses" is sounded, as it is certain to be.

Turkey is putting an expensive price ticket on its offer of 4,500 troops to fight in Korea. The republic wants admission into the Atlantic Security Pact, and all that goes with that affiliation. The Truman Plan safeguards Turkey against Red aggression, but the Turks want full membership and prerogatives. The fact that their country isn't even an Atlantic nation isn't lessening the demand; neither is Italy they point out, and, of course, they are correct in that position. What concerns the State Department is this: if Turkey is admitted to the Atlantic Pact, will other nations immediately demand in also -- Iran, Greece, etc.?

Little noticed yet backed by a large on-the-ground lobby, a new exemption from federal income tax payment is slipping through congress. It's a bill to free pensioners under the Civil Service Act from paying any federal levy on their monthly checks. Washington's largest industry being government and its employees civil servants, pensioners

here run into the thousands and have been telling their story to congressmen with real effect.

Senators suspect their colleague, William "Wild Bill" Langer of North Dakota, is trying to set himself up as a one-man war contracts investigating committee. He's backing into the role. Langer is author of a resolution for a senate investigation of the cement shortage. Such an inquiry naturally would go off on tangents -- to related building materials, to manpower and transportation, to the wisdom and extent of federal controls, to monopoly.

Provocative questions already are being tossed out for background which should whet public interest -- and that obviously is Langer's purpose in asking them. He wants to know whether large amounts of cement are being withheld from the market, pending further price increases; whether the government is hoarding cement; whether existing shortages are the result of unlawful action by persons or groups. Langer isn't running for re-election this year, so he proposes that the study take place at once, continue to Jan. 15, 1951. Since he won't be campaigning, he would be in a position to make a one-man investigation.

The steel industry clings to the hope that allocation of its product can be avoided. The alternative would be a voluntary program of putting first needs first and steel men are telling congress that can be accomplished successfully. The idea isn't going across on Capitol Hill where smaller customers are complaining already that they are being frozen out by larger buyers. Production currently tops World War 2 output. But it won't be enough if the necessities of a global war must be met.

A federal sales tax, exempting nothing but food, is an outside possibility if other means of raising revenue are rejected. Studies now are being made by a senate staff. The results will be offered to congress early next year. Rejection is likely to follow. Added to the opposition this form of tax meets everywhere is the fact that it would require a 20 per cent levy to produce 10 billion dollars a year. Not worth it, senators are saying. But they'll hold onto the report as a "club."

Seeking to meet labor-management problems in wartime by preparing well in advance, the senate labor committee will stage a seminar here which should lay the groundwork for policies. Employers, employees, government experts, and "public" representatives will join in the discussions, advise the senate on civilian manpower utilization. Topics to be covered run the gamut of wages, hours, manpower allocation, handling of disputes, efficacy of existing legislation to cope with wartime conditions.

With jurisdiction over manpower being grabbed at by the defense agencies, the Labor Department, and the National Security Resources Board, live topic will be whether all three should be shunted aside and another War Manpower Commission such as existed in World War 2 created. Related question is whether the War Labor Board should be reactivated, superimposed upon National Labor Relations Board. If so, should it again give the powers of judgment to a three-party unit with equal representation of management, labor, and public?

Industry has an important stake in still another of the subjects for deliberation: should there be new and binding definitions of what is a "war industry," what is a "vital war industry"? Clear-cut descriptions would remove uncertainty over what wartime rules apply in a given plant, put an end to "shopping around" for the services of the federal agency considered most likely to render a decision favorable to a disputant party.

Also on the agenda is the extent to which plant seizure power should be vested, and exercised; whether the Mediation and Conciliation service should be given enlarged scope, or merged with another agency or agencies. Labor wants to discuss setting aside parts of the Taft-Hartley Act "for the duration," will be heard on the point but isn't likely to get far with the project.

# *Politico-Economic Weaknesses of The* SOVIET ORBIT


*By V. L. Horoth*

Now that the retreat in Korea has ended and the North Korean Reds are beginning to get the taste of things to come, it is natural that there should be a reaction to the feeling of apprehension and pessimism that the first phase of the war aroused in this country and even more so in Europe. Although the communist East is in a position to put in the field more foot soldiers than the West, confidence, shaken by the events of the last weeks, is being restored. The changing fortunes in Korea show that it will be possible to hold back the communist hordes by means of superior organization and equipment, and by continually perfecting the task forces assigned to disorganize the enemy deep behind his lines.

However, the question of what the Kremlin may do next remains paramount. Is it the fear alone of our atom-bomb equipped air armadas that keeps Stalin from ordering his mechanized divisions to overrun Western Europe up to the Pyrennean barrier? Aren't there other deterring political and economic factors that make the waging of another general war too risky for the communist controlled orbit?

It takes no close analysis to find that there are political and economic weaknesses galore. The Asiatic peoples who have always expected dictation from their rulers, may not feel any unaccustomed oppression from the Soviet political and economic system; but the "captive populations" in the West, the Balts, the Czechs, and even the Hungarians and the Poles—despite the fact that the latter two nations have never experienced the fundamental freedoms of democracy—are from 70 to 90 per cent opposed to their Moscow rulers. The third world war, if it breaks out would be more in the nature of a civil war than a direct conflict. For such a war would be waged not only in Western European countries, such as Italy and France, but also in all likelihood in the Eastern European satellite countries where the communists have been maintaining themselves solely by police methods and by threatening direct Russian intervention.

The West today may have its own troubles in Japan, West Germany, and other areas which have suffered economically from the ever-widening economic split between East and West. But Moscow has parallel troubles. Inability to trade with their natural trade neighbors has drained and set back the Czech economy in the West as it has that of Manchuria in the East. It will take years before the development of new economic and trade ties among the Soviet orbit countries can make up for the loss of their old trade partners.

There is a rather singular similarity between the present communist and the early Arab attempts to organize a universal world state. In both cases the combination of religious zeal with powerful mobile armies made the threat to the remaining world doubly dangerous. Early Christendom, divided by squabbles, almost went down under the sweeping attack of the Arab nomads, who were fired as much by religious zeal as by the desire to loot the richer nations around them. What saved Christendom perhaps more than the quickly organized coalitions was (1) the lack of common interest among the peoples forcibly converted to Mohammedanism, and (2) the fratricidal strife that broke out within a generation after the conquest among the Arab leaders.

### Crusade of the Free World

The zealots of the "materialistic religion" which is communism, directing the hundreds of millions of Russians and Chinese, present a danger such as the world has not known for the last thirteen hundred years—since the time of the Arab conquest. But like early Christendom, the still-free world is organizing itself for the crusade. Moreover, there is a fair chance that upon the death of the great "Red Khan" residing in the Kremlin, his heirs will once more "fall upon one another's sword". Millions of people in Eastern Europe and such parts of Russia

as the Ukraine are living just for that thing to happen. The slightest indication of weakness on the part of the Kremlin is bound to encourage the potential "Titos" in Prague, Warsaw, Budapest on one side of the great Eurasian continent, and in Peiping and Seoul on the other.

With fires of revolt smouldering everywhere under the surface, any communist reverse, or any test to which their rule may be put, is bound to end disastrously for them. For this reason the communist rulers will try to avoid such a test. Not only the Poles and the Hungarians, but four out of five Czechs and Yugoslavs, once strongly pro-Russian, will fight the rule of the Kremlin, given a fair chance.

### Swings in Sentiment

Some of the "defeatism" which the Western World displayed during the past two months in its assessment of the strength of the communist world can be traced (1) to a certain amount of emotionalism, and (2) to the discovery that we are still unprepared to wage a war with the weapons of the communists' own choosing. Last spring, under the influence of reports about the amazing comeback of Western Europe, we saw communism in retreat in the West. There was a tendency to discount Russia's successful postwar rehabilitation and the collapse of China.

Now we have swayed completely the other way. Suddenly we are aware that the communist-dominated orbit has under control some 25 per cent of the world's surface and some 800 million people—about one-third of the world's population—who will be "impossible to contain" if they decide to break out of their present orbit. Before panicking, let us look at how formidable these hordes may prove.

Of the 800 million people living in the communist orbit, less than 500 million are Chinese, some 150 million are Russian Slavs, and another 150 million or so are the Eastern Europeans and the non-Russian minorities living in the Soviet Union. The latter 150 million are the unreliable elements from Moscow's viewpoint—especially the Eastern Europeans. Most of the Chinese have probably no other desire than to be left alone to raise enough subsistence. Out of the 800 million people in the communist domain, all except 60 million who labor in factories and take care of transportation and distribution, are farmers or cattle raising nomads.

### Low Russian Living Standards

With the exception of the farmers in Eastern Europe, most of the 740 million peasants and nomads in the communist area live on a mere subsistence level. All the overadvertised mechanization of farming in Russia, tractor stations and plant selection, cannot alter the fact that the climate is too cold or too dry to achieve crop yields as high as in Western Europe or the United States. Despite her vast expanse, most of the agricultural economists regard Russia as over-populated. One reason why the industrialization cannot progress as fast as the Kremlin would like it, is that the present farm population is unable to produce surpluses large enough to feed urban areas. There is a chronic deficit of fats and meats, the livestock numbers today scarcely exceeding those in the pre-1914 Russia when the population was 25 per cent smaller.

In China the situation is, of course, even worse. The inability to grow enough food to meet even her low standards is an important factor in China's push to the South into the rice surplus producing areas of Burma and Indo-China. This year, the crops are below normal in both Russia and China. It is resported that in contrast with 1941, Russia's reserve grain stocks are far below normal, and as a result, the Kremlin is likely to think twice before risking a major war.

The 740 million peasants who are increasing at an annual rate of about 13 million are all potential foot soldiers and "cannon fodder". Compared with the West's standards, the 60 million industrial workers cannot arm them very effectively even if they concentrate on the production of weapons. However, such peasant armies can be tough when ably led, as the Korean war has shown.

Of the 60 million non-agricultural workers, about 35 million are in Russia and the remainder in the satellite countries and China. How does this communist labor force compare with the non-agricultural labor force in the United States numbering about 45 million? First, about one half of the non-agricultural force in Russia proper are women; second, a large proportion of this labor force has but superficial training; and third, in Russia as well as in other communist-dominated countries, there is at the worker's disposal only a fraction of the capital equipment available to the worker in America. This more than anything else accounts for the extremely low productivity of the average worker within the communist orbit.

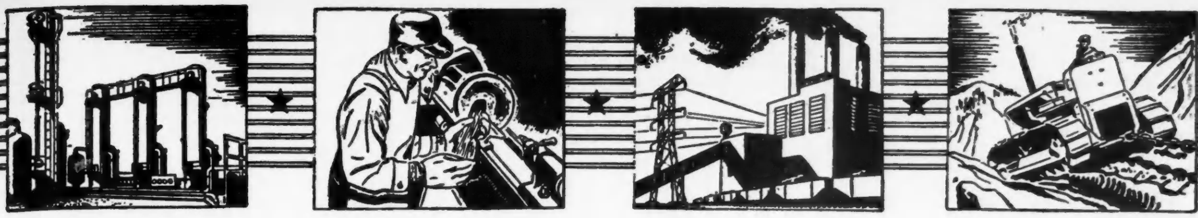
It has been estimated that the average Soviet man-hour industrial productivity is only about 20 to 25 per cent of the American. On basis of this calculation, the Russian non-agricultural labor force would be about as effective, when it comes to producing goods, as 8 to 9 million American workers. Since our labor force is about 45 million, it may be assumed that our non-agricultural production is roughly about 5 times as large as Russia's.

### Industrial Weakness

Just as Russian agriculture can never aspire to produce comfortable and well-diversified food surpluses for a population increasing at an annual rate of about 4 to 5 million, so Soviet industry can hardly expect to catch up with the United States—at any rate during the rest of this century. It may do so in some lines, as for example in the production of tanks, guns, and other ordnance, but this is likely to be the result of special concentration and deliberate neglect in other lines, particularly in the production of consumers' goods.

In a recently published study originating in the Russian Research Department at Columbia University, the writer estimates that in 1937, Russian overall production was so low that one must go back to the 1869-1878 decade to find the United States equivalent. Even in that particular decade, however, the average American had apparently more food, clothing, and other consumption goods that Soviet citizens had in 1937.

Another powerful reason why it may take several decades for Russia to approach the industrial production level in the United States is the relative paucity of mineral resources (especially petroleum) and their distribution in respect to the main industrial areas. Some of the deficiency may be partly overcome by encouraging (*Please turn to page* 648)



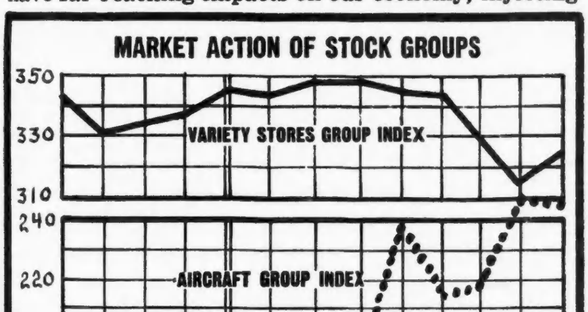
# 1950 Mid-Year Re-appraisals of Values, Earnings and Dividend Forecasts In a Mobilized Economy

★ ★ ★

## Prospects and Ratings for Metals, Aircrafts, Merchandising and Rubber Shares.

## Part IV

The outbreak of the Korean war, its immediate and longer term repercussions and the ever-present threat of a widening of the conflict—and the need to prepare for it, will have far-reaching impacts on our economy, injecting new uncertainties which already have led to important changes in investment thinking. The foremost question, which may not be answered immediately, centers on the extent to which events will force us into a progressive war economy, with all that it would mean in terms of restrictions and controls, higher corporate taxes and revival of the excess profits tax, as well as many other changes that might flow from a move towards at least partial economic mobilization.

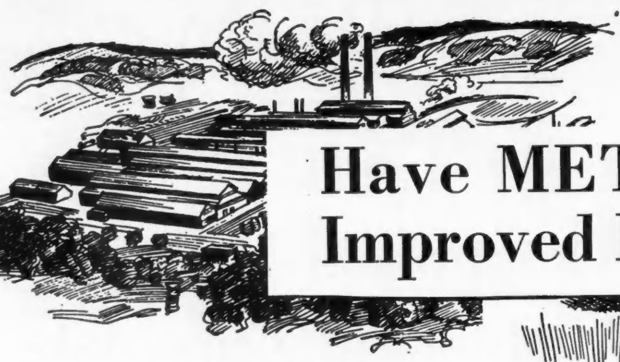



The cost of even a "little war" and resultant demands on the economy will be substantial. Since these will be superimposed on an already booming industry, inflation pressures may grow and production shifts in various areas may be required.

To assist our readers in arriving at sound investment decisions in the circumstances likely to prevail, and in realigning their policies with the selectivity dictated by varying industry prospects under changing conditions, The Magazine of Wall Street in addition to its regular coverage of important developments at this time presents its Mid-Year Security Re-Appraisals and Dividend Forecasts with particular emphasis on the strategic position of individual industries in a mobilized economy, outlining potential impacts of war and preparedness planning, vulnerability to excess profits taxes, as well as basic factors in operation.

The key to our ratings of investment quality and current earnings trends of the individual stocks—the last column in the tables preceding our comments—is as follows: A+, Top Quality; A, High Grade; B, Good; C+, Fair; C, Marginal. The accompanying numerals indicate current earnings trends thus: 1—Upward; 2—Steady; 3—Downward. For example, A1 denotes a stock of high grade investment quality with an upward earnings trend.

Stocks marked with a "W" in the tabulation are recommended for income return. Issues regarded as having above average appreciation potentials are denoted by the letter "X." *Purchases for appreciation should of course be timed with the trend and investment advice presented in the A. T. Miller market analysis in every issue of this publication.*



# Have METALS Discounted Improved Earnings Outlook?

By H. S. COFFIN

Demand-supply factors have progressively benefitted the operations of the non-ferrous metals industry thus far in the current year, and now that increased military needs have entered the picture, the outlook for favorable progress is enhanced. A strong uptrend in prices since the start of the current year for copper, zinc, lead and nickel, in most cases accentuated in recent weeks, appears to have a valid basis and any reversal seems unlikely in the foreseeable future. In the fall months, some further stiffening of prices would not surprise.

In the circumstances, the assurance of well sustained demand and in many cases capacity operations, combined with a firm price structure, offers hope of more stable earnings for the well situated miners than could normally be expected in this traditionally volatile field. Under the expanding military program, the Government is certain to encourage maximum output of all metals, and between munitions requirements and stockpiling, any enforced lag in metal demand for civilian manufactures should be easily absorbed.

In the event that price ceilings are imposed, the rapid rise of mining costs in postwar leaves small doubt that quotations above World War II days will be established, with little chance of a roll-back from present levels. Under current market conditions, the spreads of low cost producers should permit at least satisfactory earnings, while prospects of marginal concerns are improved. Moreover, if metal supplies become too tight, Congress may restore subsidies for high cost producers that proved very beneficial in the last war.

Sales and earnings of non-ferrous metal concerns in the first quarter of 1950 got off to a poor start for the year, almost entirely due to weak prices. Combined sales of 23 concerns, including all divisions such as copper, lead, zinc, aluminum and tin declined 15%, while net earnings dropped at a faster pace by approximately 30%. The general uptrend in metal prices in the second quarter, however, more than offset the earlier poor showing, and earnings for the first half year frequently exceeded the annual rate for the previous year by a comfortable margin. In view of the continued rise in prices, further improvement seems indicated for the third quarter, but profits for the full year will be pared somewhat by the still undetermined new tax rates. Looking into 1951, when excess profit taxes may be imposed, allowance for heavy depletion charges may alleviate the impact.

*COPPER*: Since April, 1950, copper prices have advanced 4 cents a pound to 22½ cents, closely approaching the early 1949 peak of 23½ cents. This advance of about 22% naturally widened operating margins, and if held should adequately offset a rise in 5% for wage costs and last September's 3.7% increase in freight rates. Prior to the Korean war, considerable caution prevailed, lest copper prices once more might recede sharply as happened after their last major rise late in 1948, but such feeling has now been fully dispelled. Now that at least 7 million automobiles seem sure to be produced this year, and housing starts may equal 1.2 million, while capital expenditures may almost equal those of 1949 and defense requirements mount, copper should logically continue in tight supply.

### Accelerated Stockpiling

The Government has stepped up stockpiling of copper from 15,000 tons a month to around 25,000 tons and under the expanding defense program may acquire up to 10,000 tons monthly additional. As the supply squeeze is becoming intensified, firm prices for quite some time seem inevitable. With domestic output of the red metal amounting to about 96,000 tons monthly compared with consumption at a record rate of more than 130,000 tons, it is obvious that recent imports of around 36,000 tons monthly will have to be sharply expanded unless civilian consumption is speedily curtailed. Any such curtailment, in turn would only tend to build up deferred demand and in the absence of price ceilings would stimulate price inflation for copper. In the circumstances, eventual though probably not early price control is a possibility. Nevertheless, basic demand-supply fac-

## *Financial Data on Non-Ferrous Metal Stocks*

| | 1949 | | | First Half 1950 | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Net Sales ($ mil.) | Net Margin | Net Per Share | Net Sales ($ mil.) | Net Margin | Net Per Share | Recent Price | Div. 1949 | Div. Yield† | Invest-ment Rating | COMMENTS |
| Aluminum Co. of America X | $347.1 | 7.0% | $4.45 | $ ... | ... | $ ... | 64⅛ | $2.00 | 3.1% | B1 | Dominant and fully integrated company with rather clearly indicated outlook for higher earnings in 1950. 50 cents quarterly dividends secure. |
| Amer. Metal, Ltd. | 312.0 | 1.7 | 4.27 | ... | ... | 2.06 | 35½ | 2.00 | 5.6 | B2 | Mainly an investment trust, controlling valuable foreign copper mines and numerous metal refineries. 1950 earnings should prove stable and dividends total $2. |
| Amer. Smelt. & Refining X | 215.1 | 11.6 | 8.22 | 105.0 | 12.1 | 4.20 | 59½ | 5.00 | 8.6 | B1 | Rise in metal prices should create satisfactory earnings this year. The new $1 quarterly dividend should hold and some year-end extra would not surprise. |
| Amer. Zinc, Lead & Smelt. | 33.3 | 1.7 | .35 | 24.2 | 5.1 | 1.60 | 11⅞ | .20 | 1.7 | C1 | High cost operator with variable earnings, but current price trends should improve net. 1950 dividends may total 20 cents a share. |
| Anaconda Copper W | 334.1 | 8.1 | 3.14 | 188.8 | 9.1 | 2.10 | 34½ | 2.50 | 7.2 | B1 | Full integration and large productive facilities, aided by favorable price trend, benefit 1950 earnings. 50 cents quarterly dividends well protected. |
| Cerro de Pasco Copper | 29.4 | 6.1 | 1.62 | 15.5 | 5.8 | .80 | 24 | .75 | 3.1 | C+1 | Peruvian mines producing several non-ferrous metals operating profitably and dividends omitted since third 1949 quarter may be resumed soon if capital needs warrant. |
| Climax Molybdenum | 7.8 | 11.7 | .37 | 5.7 | 24.0 | .54 | 21⅝ | .80 | 3.7 | B1 | Dominant miner in special field. 1950 earnings should progressively improve. Quarterly dividends of at least 10 cents should be paid. |
| Eagle-Picher | 63.3[1] | ... | d2.20[2] | 26.8[4] | 2.8 | .85[4] | 20½ | 1.80 | 8.7 | C+2 | Ore depletion creating heavier reliance on smelting operations. Higher shipments, prices, should benefit but stability of 30 cents quarterly dividends not too assured. |
| Howe Sound | 19.3 | 8.7 | 3.67 | 10.6 | 8.9 | 1.98 | 38⅝ | 2.00 | 5.1 | B1 | Mines in Mexico, U. S. and Canada produce various non-ferrous metals, firm prices for which benefit current operations. 50 cents quarterly dividends safe. |
| Hudson Bay Min. & Smelt. | 37.4 | 34.0 | 4.61 | 19.6 | 33.4 | 2.38 | 47⅞ | 4.00 | 8.3 | C+1 | Operates extensively in Manitoba. Improved copper prices suggest satisfactory earnings. $1 quarterly dividends unlikely to vary. |
| Inspiration Cons. Copper | 11.5 | 17.1 | 1.67 | 8.4 | 18.1 | 1.30 | 17⅞ | 1.50 | 8.4 | C+1 | Successfully working low grade copper deposits in Arizona. Recently advanced 50 cents quarterly dividend indicates good progress this year. |
| International Nickel X | 182.8 | 17.6 | 2.08 | 106.1 | 19.2 | 1.33 | 32½ | 2.00 | 6.1 | B1 | Higher prices for nickel and copper on large scale output favor 1950 earnings potentials. A year-end extra likely to supplement 40 cents quarterly payments. |
| Kennecott Copper W | 246.3 | 19.5 | 4.45 | 174.3 | 21.6 | 3.49 | 64⅜ | 4.00 | 6.2 | B1 | Large ore reserves in the U. S. and Chile are operated at record low cost. Sharp uptrend in 1950 earnings indicated. Total dividends should exceed $4. |
| Magma Copper | 7.5 | 1.8 | .22 | 5.4 | 17.3 | 1.54 | 22⅞ | .25 | 1.1 | C1 | Improved milling and refining facilities, with higher metal prices, causing earnings rise, but near term resumption of dividends questionable. |
| Miami Copper | 22.1 | 10.2 | 3.06 | 8.6 | 1.9 | .23 | 15¾ | 1.75 | 11.0 | C+1 | High cost producer with limited ore reserves, but profitably operating under current favorable market conditions. Semi-annual dividends totalling 75 cents may continue. |
| New Jersey Zinc | ... | ... | 2.24 | ... | ... | 1.18 | 59⅞ | 2.75 | 4.5 | B1 | Largest domestic zinc miner. Good cost controls. Advanced prices should lift 1950 earnings. Dividends in 1950 should total at least $2 per share. |
| Phelps Dodge W | 194.3 | 17.8 | 6.85 | 105.9 | 17.0 | 3.54 | 57⅞ | 4.00 | 6.9 | B1 | Operating large mines and smelters on a six-day basis, and with higher prices, company's earnings should exceed 1949. The $1 quarterly dividends could be liberalized. |
| U. S. Smelt., Ref. & Min. | 37.5 | 6.5 | 1.51 | ... | ... | d .60 | 40 | 1.25 | 3.1 | C+2 | Depletion of ore bodies and heavy overhead adversely affecting earnings. Despite strong finances, second quarter dividend omitted and resumption obscure. |
| Vanadium Corp. of Amer. | 17.5 | ... | d1.21 | 13.0 | 8.2 | 2.65 | 31 | .25 | .8 | C+1 | Rich vanadium mines in Peru a basic advantage. Improved volume and earnings this year led to a lift in the August dividend to 40 cents a share. |

†—Based on 1949 dividends.
[1]—Year ended Nov. 30, 1949.
[2]—Before tax adjustments and Inventory reserve credits.
d—Deficit.
[3]—First Quarter 1950.
[4]—6 months ended May 31, 1950.

tors should assure a firm price structure for a considerable time ahead.

Current quotations for copper understate the actual prices that many fabricators, now operating on a hand-to-mouth basis, are paying for a substantial portion of their metal. Payment of premiums of as much as 5 cents a pound for significant tonnages in the grey markets has been reported in more than one instance. In view of this situation, the restraint of the leading copper miners in holding the line at the 22½ cents a pound level for the past four months has been impressive, considering the recent advance in all other non-ferrous metal prices.

It should be realized, though, that fabricating affiliates of such important copper miners as Anaconda, Kennecott and Phelps Dodge control about 65% of the brass and wire mill facilities in the country, and thus absorb a substantial portion of their domestic copper output. Earnings gains by the fabricators in the current year have exceeded those of the miners and to a considerable extent their profits will flow into the treasuries of the parent concerns; hence what the latter theoretically forego in copper profits will likely return in form of higher dividend from fabricating affiliates. Through this integration of operations, the leading copper concerns stand to benefit in no small manner.

### Scare Buying Swamps Fabricators

To what extent scare buying in the third quarter has built up business for the fabricators is shown by reports that in July, the brass mills, foundries and wire mills received larger orders for copper and brass goods than in any peacetime month on record. To fill these new orders would require the consumption of more than 190,000 tons of refined copper, or 23% more than in the preceding month. But despite this influx of new orders, the shortage of copper forced some smaller mills to curtail production and their operating costs are rising due to an advance in the price of brass ingots. This situation points to a probable lift in the prices for finished goods in the near term.

Any quick easing in the supply of copper has become less likely now that Congress has taken no action to continue the suspension of the two-cent a pound copper tariff. The House of Representatives voted to retain the tariff suspension but the measure was tabled in the Senate. A reversal is being sought and may ultimately eventuate.

*LEAD*: An over-abundant supply of lead in relation to demand forced a sharp decline in the price from a postwar peak of 21½ cents a pound to a low of 10½ cents as of last March. Recovery from this ebb has been only mild, although quotations slowly advanced to around 12 cents, and more recently touched 13 cents. The rapid decline brought heavy inventory losses to the leading lead miners last year as well as in the first quarter of 1950, but since the metal is produced along with zinc that permits more profitable operations, this is now proving to be somewhat more beneficial to over-all earnings.

It is estimated that mine production of lead in 1950 will total about 400,000 tons, with about equal amounts stemming from recovery of scrap and from imports. The devaluation of foreign currencies last year greatly stimulated shipments from foreign countries avid to accumulate American dollars, and our modest tariff of 1.06 cents a pound proved no deterrent. Foreign production costs are far lower than in the United States, hence overseas producers can readily make inroads into our domestic markets by underbidding domestic competition.

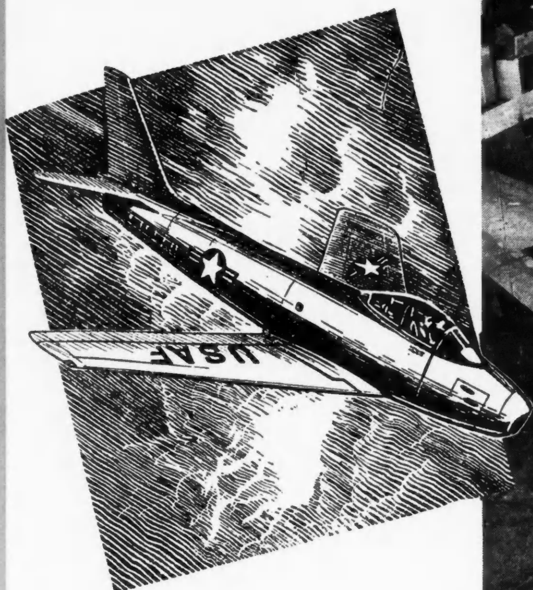
Lead consumption for the manufacture of batteries, paints, pigments, chemicals and such items as plumbing and cables in the first six months of 1950 averaged about 80,000 tons per month or only about two-thirds of the available supply. Federal stockpiling in the same period accounted for a total of about 100,000 tons, but the accumulation by the Government had reached such proportions prior to the Korean crisis that hints were made that lead buying would either be ended or substantially curtailed. Under the intensified military activity, however, a further build-up of the stockpile may result, but even so, stocks of the leading lead producers are apt to rise, although at present they are already high. This can hardly be avoided, because many mines now operating on a six-day week to meet the demand for zinc must per se extract large amounts of lead. Hence whether the current price of 13 cents a pound will hold after the spurt to build up consumer inventory subsides, is conjectural. On the whole, earnings prospects from lead operations hold little encouragement.

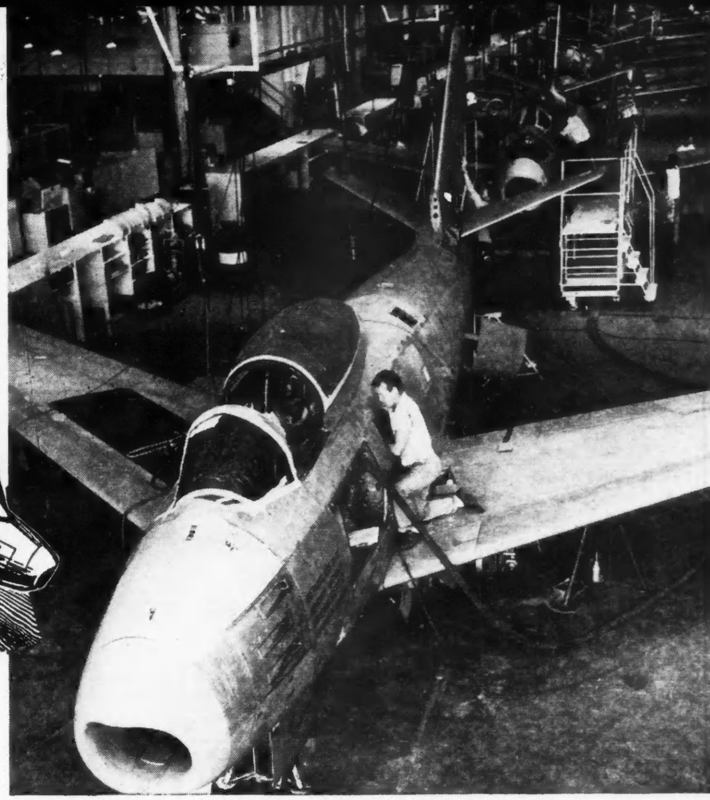
*ZINC*: Heavy demand for galvanized steel goods, plus accelerated Government stockpiling have lifted prices for zinc sharply since the beginning of 1950. In contrast to a price of 9¾ cents a pound early in January, a recent price of 20 cents was double, and 5 cents of the gain has been established within the last three weeks. Although the Government since 1946 has accumulated a stockpile of over 400,000 tons of zinc, there are estimates that the Munitions Board has stepped up acquisitions to a monthly rate of close to 20,000 tons.

In the first half year, consumption of zinc slabs was about 70,000 tons monthly for industrial purposes and under the spur of Korean developments has expanded fast. As total supplies, including 50,000 tons from mines, 5,000 tons from scrap and 35,000 tons of imported zinc come to only 90,000 tons, it can be seen that the situation has become exceedingly tight and presently is exerting heavy upward pressure on prices. Producers' stocks have become increasingly depleted, due to the inability of the mines to increase output in line with mounting demand.

Since trade experts figure that zinc miners can exceed their break-even points rather comfortably with prices around 15 cents a pound, it is clear that during the third quarter, their earnings have been substantially lifted by the recent spurt in quotations. To what extent this advantage will compensate for the drag of poor earnings from lead remains to be seen, though. Refinery operations, at least, should be profitable and more stable earnings will follow if zinc prices remain fairly firm at the current level, because risks of inventory mark-downs will then be diminished. In reflection of improved conditions, American Smelting & Refining Company has just declared a $1 common dividend payable September 22, following three previous interim payments of 75 cents. Last year no payment was made at this time, but a $2 dollar year-end payment was disbursed in December.

*ALUMINUM*: Large imports of aluminum were required this year to partially satisfy demand, although domestic producers have not only been operating at capacity but have also expanded their facilities since the start of (*Please turn to page* 639)



# *What Profit Potentials in . . .*

# BIG AIRCRAFT ORDERS?

**By Stanley Devlin**

The aircraft manufacturing industry, from an investment viewpoint as expressed in price movements of representative stocks, is one of the most volatile and at the same time one of the most dangerous mediums for the uninformed investor. As typical "war baby" stocks, issues in this group are notoriously difficult to appraise. Fluctuations are governed more by psychological factors than by normal statistical data such as earnings and dividends. For this reason they appeal primarily to experienced traders who recognize risks involved.

Shares in this industry have attracted considerable attention since outbreak of hostilities in Korea, as might have been expected, and in the light of stepped-up national defense expenditures, this appears to be an appropriate time to examine the outlook for airframe and equipment makers. There seems little doubt that the industry is headed for rapid expansion. Production promises to reach a level unsurpassed except for two or three years in the recent war. What will this development mean in terms of earnings and dividends for leading manufacturers and—more important—in terms of share prices?

Because we still are in that mysterious twilight zone which is neither peace nor total war, comparisons with past experience probably are undependable. Several broad factors are known, however, which may be examined for clues. First, on basis of vast appropriations already authorized and proposed for enlargement of the Air Force over the next few years, it is apparent that virtually all important producers will obtain sufficient business to keep present plants busy and justify consideration of plans for rehabilitating idle facilities or constructing new plants. This situation assures a significant enlargement of volume and more than likely an exceptional increase in pre-tax profits.

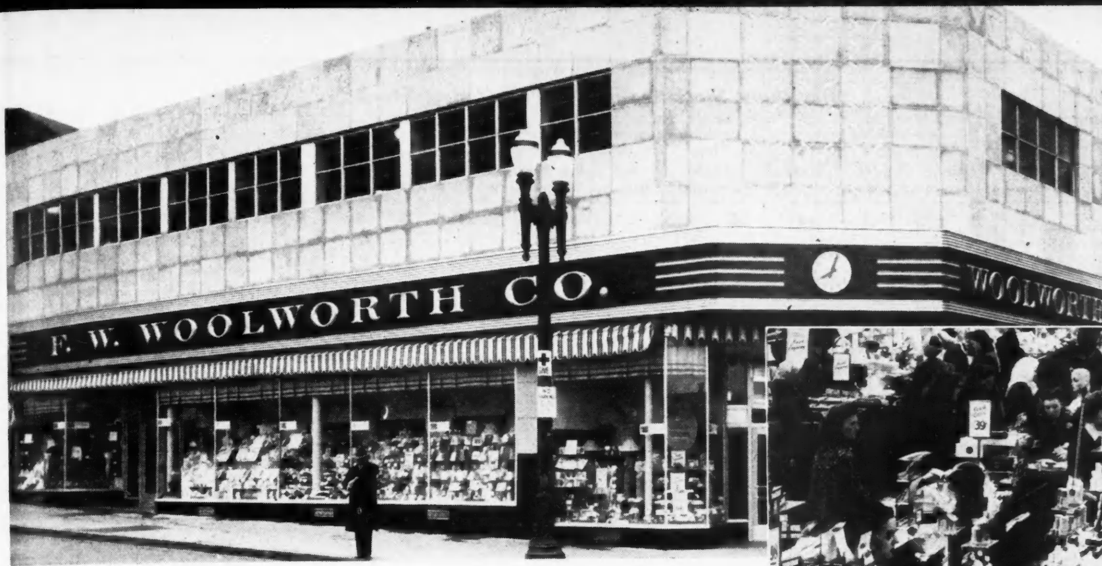
It's practically certain that a large proportion of this prospective growth in pre-tax profits cannot be retained for stockholders. Public opinion, as reflected in national legislative and administrative policies, dictates that profits gained from production of implements of war must be limited to barest minimums. Some idealists would confiscate all war profits. In any event, it is apparent that philosophies prevailing in the previous war are likely to determine regulations governing the industry in the present emergency. This means that a high percentage of benefits derived from the armament boom may be siphoned off either through renegotiation of Government contracts or by means of excess profits taxes. Under the circumstances, it is futile to endeavor to forecast effects on individual companies of the sudden influx of orders.

Another important factor tending to influence market values is the possible duration of the present high rate of production. Most observers would argue that, regardless of the danger of further Soviet aggression, procurement orders for aircraft probably would slacken in the event of a sudden, swift victory for United Nations (*Please turn to page* 644)

## *Statistical Data on Aircraft Companies*

| | Order Backlog* | 1949 Net Sales ($ mil.) | 1949 Net Per Share | First Half 1950 Net Sales ($ mil.) | First Half 1950 Net Per Share | Recent Price | Div. 1949 | Div. Yield† % | Investment Rating | COMMENTS |
|---|---|---|---|---|---|---|---|---|---|---|
| Beach Aircraft | $ 17.0 | $ 20.5 | $1.54 | $ 10.9[2] | $ .58 | 10¾ | $1.00[4] | 9.2% | C1 | Keener tempo of industry expected to stimulate civilian demand and improve competitive position. Earnings ample to cover moderate dividend requirements. |
| Bell Aircraft | 32.0 | 11.8 | .47 | 12.2 | 1.05 | 18½ | 1.00 | 5.3 | C+1 | Growing popularity of helicopters for special uses and enlarged parts program promise increased volume. Strong cash position assures dividend policy. |
| Boeing Airplane | 366.0 | 286.7 | 4.08 | 140.2 | 5.51 | 33⅜ | 2.00 | 6.0 | C+1 | Strategic position in military program and prospect for sharp expansion in volume point to high level of earnings in face of renegotiation handicaps. |
| Cessna Aircraft | ........ | 12.7 | .43 | 4.9[2] | ........ | 6⅞ | .25 | 3.5 | C1 | Promise of increased Air Force procurement of trainer planes and other small craft holds out hope of recovery for this company. Dividend policy uncertain. |
| Consol. Vultee Aircraft X | 206.0 | 196.5 | 1.60 | 146.0[3] | 1.88 | 15⅞ | ........ | ........ | C+1 | Growing reliance of Air Force on B-36 long-range bombers assures strong competitive position and encourages prospect of recovery in earning power. |
| Curtiss-Wright | 132.0 | 128.5 | .12 | 63.4 | .35 | 10¼ | 1.00 | 9.8 | C+1 | Revitalization of management, along with vast expansion of military requirements, expected to boost earnings and permit assurance of regular $1 dividend. |
| Douglas Aircraft X | 270.5 | 117.4 | 9.19 | 57.1[3] | 4.09 | 83½ | 9.25 | 11.1 | B1 | As principal source of military and commercial aircraft, Douglas appears headed for high level of activity. Earnings outlook promising. Dividend policy well established. |
| Fairchild Cam. & Inst. | 11.5 | 7.7 | .78 | 4.4 | .81 | 24½ | .35 | 1.4 | C+1 | Successful development of equipment for publishing industry aids growth potential. Military orders increasing. Earnings and dividends point higher. |
| Fairchild Eng. & Air. | 76.0 | 48.1 | .68 | 28.4 | ........ | 7⅛ | .35 | 4.9 | C1 | Heavier Government orders for military cargo and troop carriers promise increased sales. Earnings expected to improve. Dividend policy uncertain. |
| Grumman Air. Eng. X | 208.0 | 59.7 | 3.19 | 49.3 | 3.92 | 33¼ | 2.00 | 6.0 | C+1 | As largest supplier of Navy planes, the company has enviable competitive position. Management regarded as alert. Earnings assure generous dividend. |
| Lockheed Aircraft X | 431.0 | 117.6 | 5.10 | 84.4 | 4.29 | 32½ | 2.00 | 6.1 | C+1 | Growing popularity among air lines of "Constellations" augurs well for future. Holds strong position in military division. Hope of higher dividend roused. |
| Martin (Glenn L.) | 94.4 | 52.0 | 2.50 | 16.5 | .77 | 16⅜ | ........ | ........ | C+1 | Volume enlarged in commercial as well as military planes, suggesting recovery in earnings despite imminent end of tax credits. Dividend outlook doubtful. |
| North Amer. Aviation | 284.9 | 124.1 | 2.13 | 93.2[2] | 1.50 | 15¼ | 1.25 | 8.2 | C+1 | Successful development of powerful fighter planes strengthens competitive position and points to earnings growth. Prospects encouraging for dividend rise. |
| Northrop Aircraft | 103.0 | 28.2[6] | d8.52 | 30.2[7] | 2.98 | 9 | ........ | ........ | C1 | Prospects hinge largely on development of new type bombers which may involve extraordinary expenses. Earnings trend seems to warrant modest dividend hopes. |
| Piper Aircraft | ........ | 4.0 | d .17 | 2.6[2] | ........ | 2¾ | ........ | ........ | C2 | Though civilian demand has been disappointing, outlook is regarded as more encouraging for sub-contract work, as indicated by preferred dividend resumption. |
| Republic Aviation | 47.0 | 47.7 | .87 | 29.5 | .70 | 12 | ........ | ........ | C1 | Large scale production foreseen as result of successful development of jet fighters. Earnings recovery expected to raise hope of a more generous dividend. |
| Ryan Aeronautical | ........ | 15.0 | .90 | 5.5[8] | .57 | 8 | .10 | 1.2 | C1 | Increased military requirements favorable for volume. Moderate improvement promised in earnings, but dividend policy appears likely to remain conservative. |
| Solar Aircraft | 24.2 | 21.4[1] | 2.29 | ........ | ........ | 15½ | .70 | 4.5 | C+1 | As leading producer of exhaust manifolds, company stands to benefit from larger demand for jet engines. Earnings seem likely to cover modest dividend needs. |
| United Aircraft X | 310.0 | 227.0 | 3.31 | 133.0 | 2.18 | 32½ | 2.00 | 6.1 | B1 | One of largest suppliers of engines and other components. Volume likely to soar with armament program. Earnings should expand, encouraging hope of dividend rise. |
| Wright Aeronautical | ........ | 74.9 | 2.16 | 37.6 | 3.40 | 88 | 5.00 | 5.7 | C+1 | Subsidiary of Curtiss-Wright, volume likely to be enlarged in line with increased military requirements. Regular $5 dividend appears amply covered. |

*—Latest available figures.
†—Based on 1949 dividends.
1—Year ended April 30, 1950.
2—9 months ended June 30, 1950.
3—6 months ended May 31, 1950.
4—Plus Stock.
5—Quarter ended Mar. 31, 1950.
6—Year ended July 31, 1949.
7—9 months ended April 30, 1950.
8—6 months ended April 30, 1950.

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# Will Consumer Demand
## *Support Further Retail Boom?*

By H. F. TRAVIS

Retailers throughout the nation in the last few months past have been operating under conditions that gradually reached boom proportions, and to judge from the present outlook, their earnings in the second half year will be very substantial. This applies most strongly to the big mail order houses and department stores, but even the specialty shops which have lagged somewhat behind the other divisions now experience a pick-up in business likely to bring an uptrend in profits.

While signs are accumulating that anticipatory buying by consumers because of fear of shortages and higher prices induced by the Korean crisis reached a peak several weeks ago, aggregate retail volume presently is holding well above a year ago and may continue near the present level until the usual holiday spurt gets under way late in the fall. Even prior to the outbreak of hostilities, June retail sales had attained a pace comparable to the boom record for that month in 1948, and merchandising earnings in the first half year averaged moderately above the related 1949 period for quite a number of distributors. Progress varied considerably, however, depending on the proportion of hard, soft goods and specialties sold.

Quite aside from the stimulus of scare buying, the basic prop to high level consumer buying is found in the continued uptrend in national income at an annual rate of at least 4%. The formation of a record number of new homes that require a long list of appliances, furniture, floor coverings and the like has created a dependable and increasing demand for all of these items, and many more. With 1950 disposable income likely to reach $197 billion against $187.4 billion in 1949, due to higher employment and advanced wage rates, and with credit terms unusually easy, ample funds are available to satisfy swelling consumer needs. The latter include much apparel that must be replaced, following a decline in demand for a period of a year or so. On the whole, the outlook for fairly well sustained retail demand is excellent, not alone for normal reasons but also because of the prospect for firm prices, and coming shortages of numerous durable goods. It seems quite possible that full year volume of all retail establishments will be not far from $135 billion compared with $128 billion in 1949.

From the standpoint of net earnings, most retailers with the exception of specialty stores probably experienced a moderate uptrend in profits in the first half of their fiscal years, that is the six months to July 31. Many department stores and other merchandising concerns are prompt in reporting their sales progress, but often report actual earnings less frequently. Volume trends usually, though, provide rather dependable clues, hence recent marked gains in reported sales point to a substantial improvement in profits for the second half year.

### Wider Operating Margins Indicated

Operating margins should widen measurably on the larger sales, aided by rapid turnover, firm prices and an absence of mark-downs. Until current uncertainties over the prospective hike in taxes applicable to 1950 are resolved, it is not possible to determine the extent to which taxes will cut into pretax earnings. Even (*Please turn to page* 640)

## *Pertinent Statistics on Merchandising Stocks*

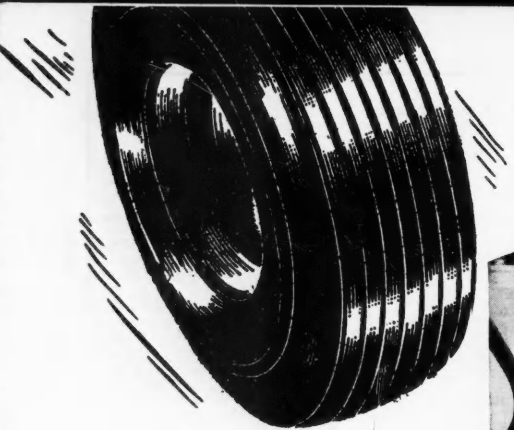
| | 1949 | | | Interim Reports 1950 | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Net Sales ($ mil.) | Net Margin | Net Per Share | Net Sales ($ mil.) | Net Margin | Net Per Share | Recent Price | Div. 1949 | Div. Yield† | Invest-ment Rating | COMMENTS |
| Aldens | $ 68.9[1] | 1.3% | $2.03[1] | $ 18.3[3] | 1.6% | $ .70[3] | 18¾ | $1.50 | 8.4% | C+1 | Sharp expansion in mail order and retail stores turnover since Korea outbreak stimulates earnings uptrend. 37½ cents quarterly dividends assured. |
| Allied Stores | 407.8[1] | 3.0 | 5.42[1] | 91.4[4] | 2.1 | .84[4] | 38½ | 3.00 | 7.7 | B1 | Despite lower earnings in first fiscal quarter, net for fiscal year ending January 31, 1950 may top $6 a share, amply covering 75 cents quarterly dividends. |
| Arnold Constable | 21.7[1] | 3.7 | 2.39[1] | 5.1[4] | ........ | ........ | 17 | 1.25 | 7.3 | B—1 | Absence of markdowns for women's apparel, increasing sales and firm prices foreshadow larger earnings. Liberal extras should supplement 12½ cents quarterly dividends. |
| Associated Dry Goods | 143.9[1] | 3.3 | 2.93[1] | 62.4[5] | ........ | ........ | 18¼ | 1.60 | 8.7 | C+1 | Favorable market conditions suggest a rise in earnings during current fiscal year to around $3.75 a share. 40 cents quarterly dividends should prove stable. |
| Best & Co. | 36.3[1] | 5.4 | 3.29[1] | 16.5[5] | 3.9 | 1.08[5] | 27¼ | 2.00 | 7.3 | B1 | Upturn in demand for style merchandise, together with efficient cost controls likely to lift annual earnings to about $4.25 a share. 50 cents quarterly dividends are well secured. |
| City Stores | 182.3[1] | 2.5 | 2.71[1] | 89.0[5] | 1.2 | .67[5] | 18 | 1.20 | 6.6 | C+1 | Acquisition of several established department stores and bright outlook for second half year indicate higher earnings. Dividends should continue at 30 cents quarterly rate. |
| Federated Dept. Stores | 358.5[1] | 4.3 | 5.45[1] | 358.8[9] | 4.8 | 6.17[9] | 40½ | 2.00 | 4.9 | B1 | Current year earnings running above a year earlier and rising further. Company's stores are strongly established. Quarterly dividends of 62½ cents are safe. |
| Gimbel Bros. | 280.8[1] | 2.2 | 2.80[1] | 63.9[4] | ........ | ........ | 18 | 1.25 | 6.9 | B1 | Marked uptrend in sales and earnings should feature operations this year. Full year net may reach $4 per share. 25 cents quarterly dividends may be liberalized. |
| Grant, W. T. | 233.1[1] | 4.0 | 3.73[1] | 117.2[7] | ........ | ........ | 27¼ | 1.00 | 3.6 | B1 | Expanded retail outlets and favorable merchandising conditions promote confidence in earnings gains. A generous year-end extra should supplement 25 cents quarterly dividends. |
| Green, H. L. | 98.7[1] | 5.0 | 4.14[1] | 20.8[4] | 3.1 | .54[4] | 37⅛ | 2.50 | 6.7 | A1 | Improved conditions in the retail markets likely to raise earnings above the 1949 level. The 50 cents quarterly dividend is secure and a year-end extra should be paid. |
| Interstate Dept. Stores | 61.7[1] | 1.8 | 3.76[1] | 29.0[5] | 1.2 | 1.14[5] | 27 | 2.00 | 7.4 | B1 | Operates a chain of 46 stores offering popular priced goods. Outlook for improved earnings good. No change in 50 cents quarterly dividends expected. |
| Kresge, S. S. | 288.6 | 6.2 | 3.28 | 144.8[7] | ........ | ........ | 38⅞ | 2.30 | 5.1 | A1 | Addition of new stores and large scale modernization of others should benefit volume and earnings. Prospective gains in second half year should lead to a year-end extra dividend atop 50 cents quarterly payments. |
| Kress, S. H. | 163.9 | 6.1 | 4.27 | 79.6[7] | ........ | ........ | 53½ | 3.00 | 5.6 | B1 | Volume slightly reduced in first five months of 1950, but trend now undoubtedly reversing. A year-end extra of about $1 should be paid, aside from quarterly dividends of 50 cents. |
| Lane Bryant | 49.3[1] | 1.8 | 1.51[1] | 12.0[4] | 2.5 | .52[4] | 11⅜ | 1.00 | 8.8 | C+1 | Competitive pricing reduced earnings in first quarter, but recovery probable for remainder of 1950, and gain may offset fully earlier decline. 25 cents quarterly dividend secure. |
| Lerner Stores | 120.6[1] | 2.5 | 2.46[1] | 58.0[5] | ........ | ........ | 20¾ | 2.00 | 9.6 | B1 | Margins should widen on larger sales in coming months and without allowing for higher taxes, net may reach about $3.25 a share, up 30%. 37½ cents quarterly dividends are amply earned. |
| Macy, R. H. | 308.1[2] | 2.2 | 3.57[2] | 71.7[4] | 1.1 | .38[4] | 31½ | 2.00 | 6.3 | B1 | Earnings should rise substantially in the second half year, with larger sales at firm prices and with no prospective markdowns. No change seems likely in dividends at 50 cents quarterly. |

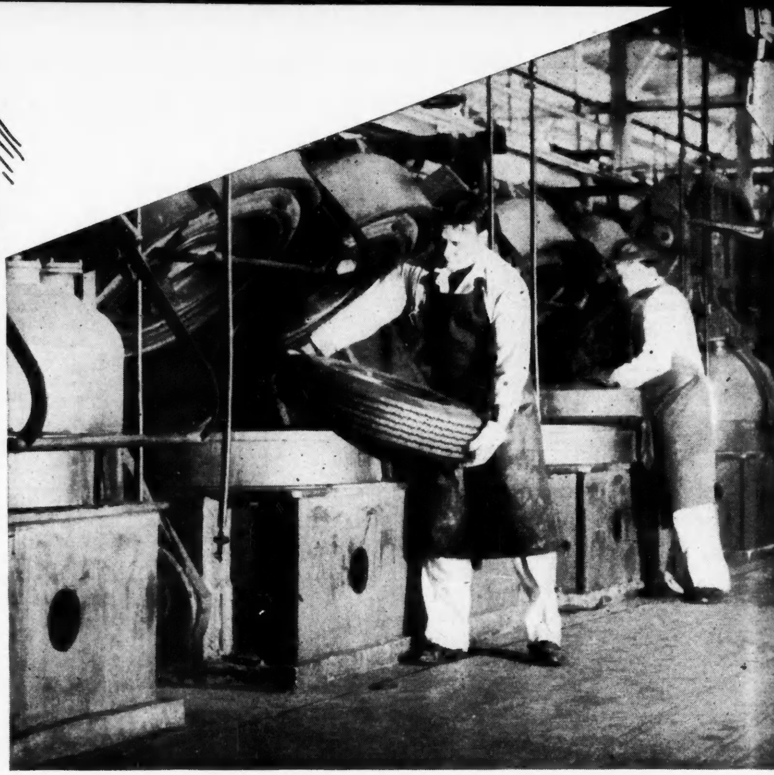
†—Based on 1949 dividends.
1—Year ended Jan. 31, 1950.
2—Year ended July 30, 1950.
3—14 weeks ended May 5, 1950.
4—Quar. ended Apr. 30, 1950.
5—6 months ended July 31, 1950.
6—6 months ended June 30, 1950.
7—7 months ended July 31, 1950.
9—52 weeks ended July 29, 1950.

## Pertinent Statistics on Merchandising Stocks (Continued)

| | 1949 | | | Interim Reports 1950 | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Net Sales ($ mil.) | Net Margin | Net Per Share | Net Sales ($ mil.) | Net Margin | Net Per Share | Recent Price | Div. 1949 | Div. Yield† | Investment Rating | COMMENTS |
| Marshall Field | 207.8 | 4.1 | 4.13 | 92.0[6] | 2.7 | 1.16[6] | 29½ | 2.00 | 6.7 | B1 | Improved earnings from textile mills aided in lifting first half year over-all net income by 42%. Net for 1950 may exceed $4.50 a share, fully protecting 50 cents quarterly dividends. |
| May Dept. Stores | 392.9[1] | 4.6 | 5.79[1] | 85.6 | ........ | ........ | 52½ | 3.00 | 5.7 | B1 | Efficiently managed department store group with strong finances. A good rise in second half sales is expected and should expand earnings. Dividends should be stable at 75 cents quarterly. |
| McCrory Stores | 95.7 | 5.0 | 4.05 | 42.3[6] | 3.8 | 1.30[6] | 34⅝ | 2.50 | 7.2 | B1 | Completion of a large scale expansion and modernization program likely to bear fruit in enlarged earnings. A year-end extra, supplementing quarterly dividends of 50 cents a share, may be paid. |
| McLellan Stores | 54.4[1] | 4.6 | 2.98[1] | 23.7[5] | 2.9 | .83[5] | 22 | 2.25 | 10.2 | B1 | Fewer markdowns and improved operating efficiency will likely create some rise in earnings this year. Total dividends should at least equal $2 a share paid last year. |
| Melville Shoe | 78.0 | 7.1 | 2.37 | 36.3[6] | 7.2 | 1.13[6] | 24 | 1.80 | 7.5 | B1 | Volume for first half year slightly lower but should fully recover in final six months. Earnings likely to rise slightly and retirement of preferred stock benefits status of common. 45 cents quarterly dividends safe. |
| Mercantile Stores | 112.6[1] | 3.2 | 2.42[1] | 54.3[5] | ........ | ........ | 16¾ | 1.00 | 6.0 | C+1 | Well managed complete department and junior department store chain, with sales rising fast since June. Earnings at present tax rates may rise to around $3 per share. 25 cents quarterly dividends appear secure. |
| Montgomery Ward | 1.084.4[1] | 4.4 | 7.13[1] | 244.1[4] | 3.8 | 1.40[4] | 55½ | 3.00 | 5.4 | B1 | With earnings fairly satisfactory in first quarter, later favorable conditions warrant expectation of marked gains for the full year. A liberal year-end extra is anticipated. |
| Murphy, G. C. | 141.3 | 6.3 | 4.46 | 74.4[7] | ........ | ........ | 45¾ | 2.00 | 4.3 | A1 | Prospective gain in earnings promotes hope that a year-end dividend of at least 50 cents will supplement quarterly dividends of 37½ cents a share. |
| National Dept. Stores | 78.4[1] | 1.8 | 1.87[1] | 17.6[4] | ........ | ........ | 18⅛ | 1.50 | 8.2 | B1 | 1950 earnings may equal $2.75 a share with a 38% tax rate. 25 cents quarterly dividends secure and a year-end extra may be paid. |
| Neisner Bros. | 57.7 | 2.4 | 2.18 | 28.6[7] | ........ | ........ | 15¼ | 1.00 | 6.5 | C+1 | Expanding volume and operating economies should create earnings of at least $2.30 cents a share in 1950. Total dividends should equal $1 per share paid last year. |
| Newberry, J. J. | 136.7 | 4.4 | 3.72 | 68.7[7] | ........ | ........ | 37 | 2.00 | 5.4 | B1 | Volume should reach record heights due to additions and enlargements of retail stores. Wider margins may lift 1950 earnings to around $4 per share. Dividends should hold at 50 cents quarterly. |
| Penney, J. C. | 880.2 | 4.7 | 5.08 | 379.2[6] | 4.6 | 2.13[6] | 59 | 2.50 | 4.2 | A1 | Largest junior department store chain. July volume gained 21.8% and should continue large in near term. 1950 earnings estimated at about $6 per share. A liberal year-end extra should supplement 50 cents quarterly dividends. |
| Sears, Roebuck | 2.168.9[1] | 5.0 | 4.58[1] | 1.208.2[6] | ........ | ........ | 44⅞ | 2.25 | 5.0 | A1 | Record sales reported for six months ended July 31. Outlook creates expectations that 1950 earnings may reach close to $6 a share at present tax rates. 50 cents quarterly dividends assured and a liberal year-end extra likely. |
| Spiegel Inc. | 132.7 | 1.5 | 1.01 | 63.1[6] | .7 | .16[6] | 10⅝ | ........ | ........ | C1 | Improved sales of hard goods this year creating moderate earnings versus a deficit the year earlier, but prospects for resuming dividends in near term are dim. |
| Woolworth, F. W. | 615.6 | 6.3 | 3.83 | 316.3[7] | ........ | ........ | 46¼ | 2.50 | 5.4 | A1 | Well situated to benefit from major improvements in retail outlets and substantial gains in volume. 1950 earnings should gain and coverage of 50 cents quarterly dividends is ample. |

†—Based on 1949 dividends.
[1]—Year ended Jan. 31, 1950.
[2]—Year ended July 30, 1950.
[3]—14 weeks ended May 5, 1950.
[4]—Quar. ended Apr. 30, 1950.
[5]—6 months ended July 31, 1950.
[6]—6 months ended June 30, 1950.
[7]—7 months ended July 31, 1950.
[9]—52 weeks ended July 29, 1950.





# ★ NEW ★ OUTLOOK for RUBBERS

By GEORGE L. MERTON

Highly favorable conditions in the rubber industry at mid-year presented a strong contrast to those a year earlier when recessive influences left their mark. Continued heavy demand for virtually all rubber products in the third quarter assures large sales by the leading producers, while a substantial uptrend in earnings established in the first six months should be sustained by advanced prices, despite sharply higher costs of natural rubber.

With progressive new peaks being established for the number of vehicles on the road requiring replacement tires, and a fair prospect that production of new cars and trucks may well remain large for the balance of the year, demand for casings and tubes is not likely to diminish in the foreseeable future. Indeed, since the Korean war, the rush of consumers to accumulate extra tires has rapidly reduced dealer inventories, forcing manufacturers to expand their work-week and to operate at capacity levels.

As for non-tire rubber items, of which about 30,000 are now in general usage, over-all volume continues at an annual clip of more than half a billion dollars, and margins on some of these products normally are more satisfactory than on tires. The development of foam rubber has been especially beneficial to the industry in the current year, with indications that this product is rapidly displacing competitive materials in many markets. Some trade experts predict that foam rubber sales this year will show a gain of almost 200% over 1949.

The major rubber manufacturers in postwar have also made strides in expanding their markets for numerous chemical specialties, especially in the form of rubber plastics for use in everything from umbrellas and curtains to food protectives. Such trade names as Pliofilm, Koroseal, Geon and Velon have become strongly entrenched in trade circles, and with demand strong, earnings of the chemical divisions generally are lending substantial support to the over-all picture.

The main contributor to volume of the leading rubber fabricators is tires, however, hence a few statistics on shipments of these in the first half year may be of interest. Shipments of passenger casings for original equipment totalled 17.1 million and for replacements 20.9 million versus 13.3 million and 17.6 million, respectively, in the first six months of 1949. Shipments of original truck and bus casings rose to about 2.2 million from 2 million and replacements to 4.2 million from 3.2 million. The score for tubes of every type advanced to 37.8 million from 31.2 million a year earlier.

Despite these impressive gains in shipments, production of casings and tubes was slightly greater in the six-month period, thus leading to a moderate increase in manufacturers' inventories, although at the end of June the totals in every division were lower than a year earlier. In June alone, inventories of automotive casings declined 12.98% from the May level and those of tubes were off 7.12%, in contrast to a 19.73% rise in shipments of casings and 26.48% of those of tubes. On balance, the inventory position seems very satisfactory, representing only about six weeks' sales, and with a trend towards further reductions. It is also interesting to note that in the current year, the substantial gain in shipments of replacement items has tended to improve earnings, as margins on these are more liberal.

The record consumption of new rubber in the last three months caused a tight squeeze on supplies of natural crude rubber and a spectacular 300% rise in the price of this essential commodity, despite peak output in producing areas. While steps to expand production of synthetic rubber have recently brought prices for natural crude rubber sharply down, current quotations around 40 cents a pound still compare significantly with 17 cents last December. Since

materials costs in the manufacture of tires account for about 65% of the total, and under Government regulations the fabricators are obliged to use from a quarter to a third of natural rubber in their operations, the higher costs have created quite a problem. Further accentuating the dilemma has been a tight supply of benzene that has hampered the production increase of the synthetic product.

As matters now look, however, the situation will be eased with passage of the new Economic Controls Law, although increased Federal stockpiling may bring other problems to the fore. As a preliminary step, President Truman has ordered an increase in synthetic rubber production to 675,000 tons annually from presently 470,000 tons, under provisions of the recently extended Act covering the Government controlled synthetic rubber industry. In line with this program, a number of important plants held in a stand-by condition are being reactivated for operation by the leading rubber concerns, and if need be other similar facilities can be readily utilized within a few months.

Word comes from Washington that as of September 1, allocations will be imposed on all crude rubber used for tires and other rubber products, and that rubber consumption will be rolled back to the levels of the year ended last June. While this rather obviously implies that the permissible proportion of synthetic rubber will be enlarged, it may require at least two months before the prospective increase can become effective. In the meanwhile, however, the cut-back in natural rubber consumption will enable the Government to stockpile up to 20,000 tons per month, a step considered essential for the defense program.

Most of the foregoing program has been formulated by joint agreement between the Rubber Manufacturers Association, the National Security Resources Board and the RFC, designed to meet military needs as well as to alleviate the current abnormal pressure of demand. Leaders in the industry anticipate few hardships under the program either for themselves or for consumers. It should be realized that consumption of 110,000 tons of new rubber in July well exceeded all normal requirements, and that the prospective monthly cutback to around 90,000 tons in the final three months of 1950 will still permit very high production by ordinary standards.

More importantly, the Federal price ceiling of 18½ cents per pound for synthetic rubber should tend to widen operating margins of the major fabricators if they are allowed to use a larger proportion of this material, as seems probable. To some extent this should offset the handicap of curtailed over-all operations and also make for better control over costs with the volatile price of natural rubber becoming less influential. At the end of World War II, the development of synthetic rubber was hailed as a permanent stabilizing (*Please turn to page 639*)

### *Statistical Position of Leading Tire and Rubber Companies*

| | 1949 | | | First Half 1950 | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Net Sales ($ mil.) | Net Margin | Net Per Share | Net Sales ($ mil.) | Net Margin | Net Per Share | Recent Price | Div. 1949 | Div. Yield† | Invest-ment Rating | COMMENTS |
| Dayton Rubber | $ 23.5[1] | .... | d$ .38[1] | $ 12.7[5] | 3.7% | $ .96[5] | 14⅜ | $ .90 | 6.3% | C+1 | Firmer tire prices and for mechanical rubber goods improving earnings. Net per share may reach $3 per share in fiscal 1950. 15 cents quarterly dividends should continue. |
| Firestone Tire & Rubber X | 579.6[1] | 3.0% | 8.82[1] | 280.3[5] | 4.7 | 6.68[5] | 69¼ | 4.00 | 5.7 | B1 | Reported uptrend in net earnings understated, due to deduction of foreign profits not yet remitted. Dividends of $1 quarterly could easily be improved. |
| General Tire & Rubber | 92.5[2] | 1.1 | .94[2] | 45.9[6] | 3.6 | 2.44[6] | 27⅞ | 2.00 | 7.1 | C+1 | Marked improvement in earnings has lead to recent payment of a 50 cents extra in addition to quarterly dividends of 25 cents. Full year dividends should equal at least $2. |
| Goodrich, B. F. X | 364.5 | 5.7 | 14.36 | 231.6 | 5.3 | 8.76 | 101 | 5.50 | 5.4 | B1 | Larger sales and firmer prices should continue to create substantial earnings. $1 per share quarterly dividends are safe and a year-end extra of at least $1.50 should follow. |
| Goodyear Tire & Rubber | 633.5 | 3.1 | 8.40[3] | 344.8 | 3.4 | 5.08 | 58¾ | 4.00 | 6.8 | B1 | Earnings of $5.08 per share for six months more than cover annual dividends at $4 rate. Increased liberality would not surprise. |
| Lee Rubber & Tire | 31.9[1] | 3.7 | 4.78[1] | 13.9[5] | 5.8 | 3.22[5] | 49¼ | 3.00 | 6.1 | B1 | Margins currently widened by advanced prices for replacement tires. Smaller concern but record good. Total dividends in 1950 should equal $3 per share. |
| Seiberling Rubber | 25.3 | .... | d 1.99 | 15.1 | 3.8 | 1.53 | 9 | .... | .... | C+1 | Heavy overhead and a not very secure trade position have created an erratic earnings record. Company has just declared a dividend on prior preferred in arrears, but resumption of common dividends remote. |
| U. S. Rubber | 518.1 | 2.9 | 5.62 | 291.2 | 3.0 | 3.55 | 46⅝ | 3.00 | 6.4 | B1 | Broadly diversified output benefitting operations in current year. In reflection of improved earnings, the directors have declared a 25 cents extra dividend to supplement the advanced quarterly rate of 75 cents. |

†—Based on 1949 dividends.
[1]—Year ended Oct. 31, 1949.
[2]—Year ended Nov. 30, 1949.
[3]—After adjustment for foreign investment loss.
[d]—Deficit.
[5]—6 months ended April 30, 1950.
[6]—6 months ended May 31, 1950.

# FOR PROFIT AND INCOME

### Groups

Market selectivity has changed little in recent weeks. The popular groups remain mostly those favored in a war or semi-war economy because of (1) indicated sharp gains in pre-tax earnings or (2) a relatively comfortable excess-profits-tax position or both. Groups performing well at this writing include coppers, oils, papers, farm equipment, aircraft, tires, rails, rail equipments, textiles, metal fabricators, steels and department store stocks.

### Stocks

A partial list of stocks currently showing above-average strength would include: U. S. Steel, Kennecott Copper, International Paper, May Department Stores, American Viscose, Ohio Oil, Zenith Radio, Deere, Douglas Aircraft, Goodrich, Goodyear, Southern Pacific, American Car & Foundry and Revere Copper & Brass. Many others could be added. To single them out is not intended as a buying recommendation. Readers whose holdings are about in line with the advices of our general market discussion (75% invested, 25% in reserves) have enough stocks. However, many portfolios no doubt could stand some improvement through switches. For this purpose there is much to be said for stocks which demonstrate individual upward trends at the time of purchase. There is no assurance, of course, that a favorable trend will continue even for a short term; but the odds are that it will, giving those who wish to use it the opportunity to establish stop-loss protection.

### Paper

The outlook for the paper industry appears excellent, with respect to dollar sales and firm prices. Many of the companies have a fair-to-good EPT position, due to relatively high average 1946-1949 earnings. One of the best situated is Kimberly-Clark, a large integrated manufacturer of white papers, cellulose wadding and paper specialties. The company is not well known to the general public, but some of its trademarked items, such as Kleenex and Kotex, are. Long-term growth of sales and profits has been outstanding. In the face of coming higher taxes, the dividend was recently boosted to a $2.40 annual basis, from $1.80. This implies that the management is confident of being able to maintain it. Net was $5.29 a share, a new peak, in the 1949 calendar year. That will probably be exceeded by a goodly measure in the newly adopted fiscal year ending April 30, 1951. For instance, earnings for four months to last April 30 were $2.43 a share or at an annual rate of more than $7.25 a share; and the general paper situation is stronger now than it was in the period covered by the interim report. Selling around 38 at this writing, which is moderately less than book value per share, the stock is priced to yield over 6.3%. That is a good yield for a growth issue of this quality, a consideration which may outweigh the fact that the price is virtually the all-time high. Earnings averaged about $4.50 a share for 1946-1949, making for a fairly satisfactory EPT position.

**INCREASES SHOWN IN RECENT EARNINGS REPORTS**

| | | 1950 | 1949 |
|---|---|---|---|
| Kennecott Copper | 6 months June 30 | $3.49 | $2.15 |
| Lily-Tulip Cup | 6 months June 30 | 3.51 | 1.82 |
| United Gas Corp. | June 30 Quarter | .36 | .26 |
| Glidden Co. | July 31 Quarter | 2.14 | 1.87 |
| Hudson Motor Car | June 30 Quarter | 2.25 | 1.18 |
| Bendix Aviation Corp. | 9 months June 30 | 5.71 | 2.35 |
| Federated Dept. Stores | 13 weeks July 29 | 1.02 | .45 |
| Kimberly-Clark | July 31 Quarter | 1.69 | .93 |
| Pennsylvania R. R. | 7 months July 31 | .76 | .45 |
| Amer. Smelt & Refining | 6 months June 30 | 4.20 | 3.28 |

### Broadcasters

The radio-video broadcasters have turned the corner, with telecasting losses cut enough to permit higher over-all net. Telecasting may contribute to profits in the later months of this year. Columbia Broadcasting earned 91 cents a share in the fiscal quarter ended July 1, against 50 cents for the like period last year. The dividend is back to a $1.60 a year basis, against $1.40 paid in 1949. American Broadcasting was modestly in the black for the latest interim period, against a deficit a year ago. It had a deficit of 31 cents a share last year, but may well show some earnings for 1950 as a whole. CBS earned $2.44 a share last year, the poorest figure since $2.40 in 1942, and will largely better that this year. The EPT position of American Broadcasting is fair; that of Columbia good. CBS is currently selling around 29, against 1949 low of 16⅝, 1950 low of 25 and 1946 high of 50⅛. The much more speculative American Broadcasting is selling around 11, against 1949 low of 5½ and 1950 high of 14¼. In one respect an EPT would help these companies. It would stimulate corporate outlays for advertising of all types, including radio and video.

### Brake Shoe

The recent flow of orders to the railroad equipment industry has been the best in some years. Even B-K (before the Korean war) the trend had turned upward moderately from a low level. It has accelerated since, of course. One of the best companies in this field is American Brake Shoe, maker of brake shoes and parts, car wheels, track fixtures, castings, forgings, bearings, etc. A little over half of total sales are normally to railroads, the rest to a variety of industries. Earnings for the second quarter were $1.37 a share, against $1.04 in this period of 1949. Full-year net no doubt will be well above last year's $3.22 a share. As 1946-1949 earnings averaged $3.82 a share, the EPT position is relatively good. The dividend is on a $2 annual basis, yielding about 5.2% at present price of 38½; and may well be subject to future increase. For instance, as much as $2.50 was paid in 1948; and as much as $3.40 in the prewar year 1937. The quality of this company is attested by the fact that, although it operates in a "prince and pauper" field, it has paid continuous dividends, always in more than mere token amounts, since 1902; and maintained strong finances. The June 30 balance sheet showed cash alone exceeding total current liabilities. The book value is nearly $43 a share.

### Dow Chemical

Earnings of this excellent growth company were $5.34 a share, a new peak, for the fiscal year ended last May 31. They would have been about $4.31 a share under a 50% corporate tax rate. They average $3.95 a share for 1946-1949. On a basis of 75% thereof, the EPT exemption would be around $3.00 a share. Were the excess over that taxed at 80%, net for the latest fiscal year would have been less than $3.50 a share. These are necessarily rough calculations, since earnings for tax purposes may vary somewhat from publicly reported earnings. But they suggest that the company is definitely more vulnerable to EPT than to any boost in the regular tax rate to anything less than some 60%. As applied to future years, even a 60% rate probably would leave more net for dividends than would a stiff EPT.

### Machine Tools

By 1949 the dollar volume of machine tool sales had sunk to about one-fifth of the abnormal peak reached early in the last war period. However, there was a moderate turn for the better earlier this year, which has now been accelerated by the defense program's guarantee of high econmoic activity for an extended time to come. New orders in July were double those of June, and four times those of July, 1949. It is an industry of in-and-out earnings, and of relatively small but financially strong companies. The stocks generally sell under book values; and in many instances around, if not below, net quick assets per share. One of the best of them is Cincinnati Milling Machine, usually the largest company in annual volume. An unusual thing about this company is that it has paid cash dividends each year since 1894, excepting 1922 when the stock was split 6-for-1 and a stock dividend in preferred shares was paid. The present indicated rate, inclusive of a probable year-end extra, is $1.75. Earnings last year were $2.65 a share, only a shade better than in the depression year 1938 and comparing with 1942 wartime peak of $8.46 a share. A year-to-year shrinkage was shown for the first half, but sharply improved results are ahead. There are only 850,000 shares of common (preceded by 48,874 shares of $4 preferred), and much of this is closely held, making the stock thin. The current price is around 31. The book value is over $43 a share and net quick assets approximate $30 a share. At the end of 1949, cash holdings alone were four and a half times total current liabilities.

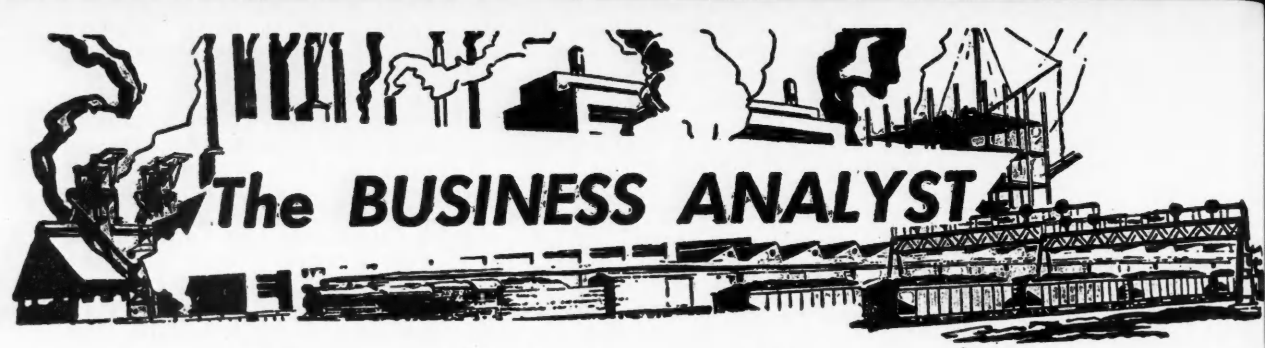
### Axles

As noted in this column before, makers of motor trucks are in a strong revival after more than a two-year downward cycle; and prospects in a war or semi-war economy are favorable. One of the outstanding beneficiaries is Timken-Detroit Axle, leading maker of heavy-duty axles and related parts for trucks, trailers and buses. The company also makes oil burners. Earnings probably were around $2 a share for the fiscal year ended June 30. They could easily be $3 to $3.50 in the current fiscal year, despite allow-

(*Please turn to page* 644)

**DECREASES SHOWN IN RECENT EARNINGS REPORTS**

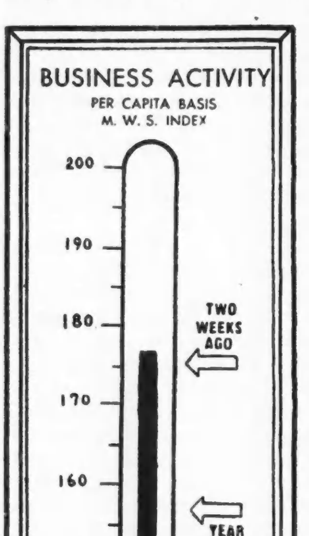
| | | 1950 | 1949 |
|---|---|---|---|
| N. Y. Central R. R. | 7 months July 31 | $ .11 | $ .29 |
| Twentieth Cent.-Fox Film | 26 months July 1 | 1.59 | 1.95 |
| Paraffine Companies | Year June 30 | .90 | 2.14 |
| Oliver Corp. | 9 months July 31 | 4.00 | 4.99 |
| Archer-Daniels-Midland | Year June 30 | 5.71 | 7.36 |
| Bullard Co. | June 30 Quarter | .44 | .76 |
| Cerro de Pasco Copper | 6 months June 30 | .80 | 1.03 |
| Ronson Art Metal Works | June 30 Quarter | .26 | .99 |
| Stokely-Van Camp | Year May 31 | 1.63 | 2.34 |
| Link Belt | 6 months June 30 | 4.08 | 4.78 |




# What's Ahead for Business?

**By E. K. A.**

The initial impact of the Korean crisis on our industrial economy has surpassed expectations. This column felt right along, and said so, that the seasonal summer lull would be milder and shorter, as was logically to be expected. But look what happened. Industrial production in terms of the Federal Reserve Board Index in June had reached a high of 199% of the 1935-39 average. In July, when the seasonal slack is usually most pronounced, it dipped a mere two points to 197. And now comes the FRB with an estimate that it expects the August production index to hit 204, with allowances for normal seasonal changes. This will be the highest level since 1944, exceeding the 1948 postwar record of 195 by a substantial margin of nine points. It will be only six points below the July 1945 level. But it will still be considerably below wartime peak figures. In 1943, the index averaged 239% for the full year.




Clearly, under the stimulus of heavy consumer and business buying after the invasion of South Korea, prices, business activity and incomes have increased considerably beyond the advanced levels reached in June. Consumer purchases of goods at retail, though reduced from the July peak, are still at a high level. For the week ended August 19, for instance, department store sales were running 12% above year-ago levels whereas they averaged 26% higher in the preceding week.

On the price front, though new Government spending has not yet actually begun on any important scale, heavy forward buying by consumers and producers resulted in sharp advances in industrial raw materials prices, farm products, and foods. This advance has now slowed, but not without first being followed by large price increases in the chemical and textile groups. Sharp increases in building materials prices were also noted. The upward price trend on the whole continues to spread throughout industry and its impact is being increasingly reflected at the consumer level. Yet nothing much is likely to be done about it any time soon.

Passage of the defense production bill, giving the President vast control powers over the economy, is virtually completed at this writing and controls are scheduled to start about two weeks after enactment, but there is every indication that the Administration will go slow at first. According to advance information, the first two steps will be establishment of a monthly inventory and order reporting system, and the setting aside for war production of quantities of about twenty key commodities.

The program will start off on a voluntary basis, it is said, but with the club of mandatory powers overhanging. Provided that the voluntary system works adequately, it is believed that recourse to mandatory controls won't be necessary until six months hence or more, when defense production is expected to get into high gear. Until then, too, civilian cutbacks are not likely to run heavy, it is thought. Any change for the worse in the international situation may of course quickly alter this outlook.

Barring the latter, price controls—even on vital materials under allocation—are much less certain. The White House wants to avoid them as long as possible; chances are there won't be any at least until another round of wage boosts has been forced through by labor. However, in view of the limited nature of mobilization and the time lag involved in getting into war production, pressure on most prices should gradually lessen, particularly once inventory control is becoming effective.

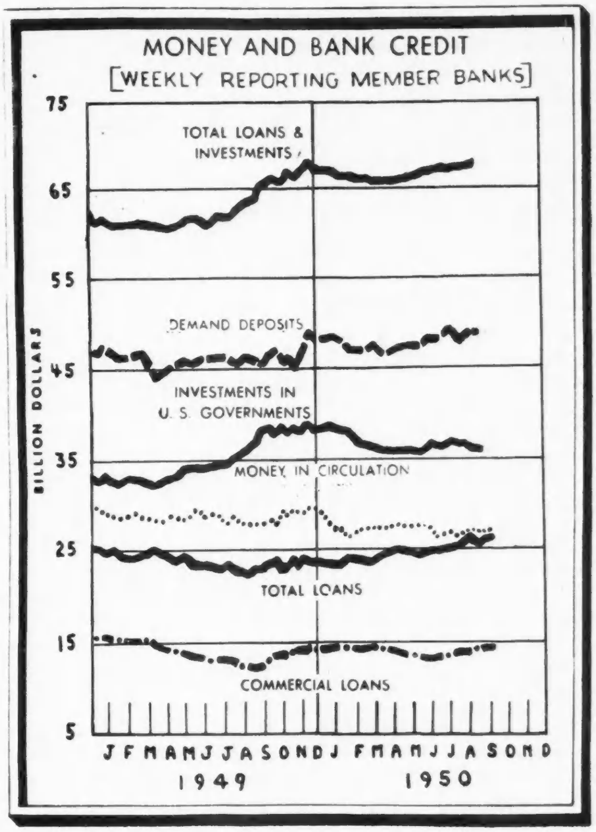
## Guided Expansion

Interesting feature of the defense production bill is the authority—with perhaps $2 billion to back it up—for Government-directed expansion of industry. What's more, these $2 billion will be only a starter in the view of informed officials. Areas where expansion will most likely be pushed include steel, aluminum, copper, freight cars, electric power and a good many others. Work has already been started to set tentative production goals in these fields—high enough to meet a combined military-foreign arms aid budget of some $30 billion and at the same time for expanding civilian output to obviate serious shortages.

# The Business Analyst

# HIGHLIGHTS

**MONEY AND CREDIT**—During the fortnight ended August 26, common stocks listed on the New York Stock Exchange advanced to a new high average since 1948. The more speculative low priced stocks also rose to a new high average since 1948; but the higher priced stocks have thus far succeeded in recovering only 96% of their three weeks of war-scare decline. During the fortnight, 14 of our 46 group indexes also made new highs for various periods, as tabulated on the second page following. Corporate bonds and preferred stocks crept forward to new average highs since September 20, 1947, despite announcement of an increase of ¼% on short term bank loans. New York bank stocks rose fractionally, and foreign government dollar bonds recovered to the best average level since July 8. Demand deposits at weekly reporting member banks expanded $126 million during the first seven weeks of the current fiscal year. They contracted $49 million during the corresponding interval last year. In the fiscal year to August 23, member bank reserves have risen $454 million, thereby permitting expansion of around $200 million in earnings assets. The Government's budget deficit for eight weeks has been only $530 million, compared with $1,616 million in the corresponding period last year. Receipts have been $174 million larger this year and expenditures $912 million smaller. For the first four weeks of August there has actually been a surplus of $602 million, against a $128 million deficit last year. The cold war between the Treasury and Federal Reserve Board over fiscal policies has waxed warmer since our last issue. To implement the Board's belief in higher interest rates as one of several sensible weapons for fighting inflation, the Reserve Bank of N. Y. hiked its discount rate to 1¾%, from 1½%. Member banks of this district responded promptly with an across-the-board increase of ¼% in their own rates on short term loans. At the same time, the Treasury offered two new 13-month notes paying 1¼% to replace issues totaling $13.5 billion coming due in September and October. This is the same interest rate the Treasury is now paying on similar issues. The Treasury also announced that insurance companies, savings banks and other institutional investors may buy up to $1.1 billion of Series F and G savings bonds this year, against the former limit of $100,000. Later, the Treasury told the F.R.B. that it expects the Board to manage the market for Treasury issues so that interest rates on Government securities are kept at present low levels. Then the F. R. B. let it be known that other measures to tighten credit would be taken before long. The exchange of verbal volleys precipitated the heaviest turnover in Government securities in history during the week ended August 23. Banks and other investors hastened to get rid of low-yield Government securities and to buy long term Government bonds. To stabilize the market, Federal Reserve Banks took all offerings and supplied all demands, ending up with a net increase of $243 million in holdings. The longer range consequence will be that the Federal Reserve Banks will have to take virtually all future offerings of new Treasury short term securities, for few outsiders will be interested in such low-yield investments. This itself would be highly inflationary, unless the Reserve Banks sold a proportionate amount of longer term Governments, thereby precipitating a decline in prices and raising the yield, which would be contrary to Treasury instructions. Owing to her improved dollar exchange position, Canada will pay cash for half of her $100 million of external bonds called for payment on October 1, and issue only $50 million of refunding bonds.




**TRADE**—War scare buying lifted retail sales during July to a nation-wide total that was 19% ahead of a year ago. Sales of automobiles, building materials and home furnishings were up 40%. Not all of this fantastic increase, however, was due to scare buying. Last year's business recession hit bottom in July and sales for that month were abnormally low. Later reports indicate that the stampede has now been moderating. During the week ended August 19, for example, department store sales throughout the nation were only 12% above a year ago, against a four-weeks' increase of 26%.

**INDUSTRY**—There has been little abatement, however, in the rush to get industrial orders on suppliers' books before priorities and allocations are clamped on. As in previous outbursts there has been much duplication of ordering.

**COMMODITIES**—During the fortnight ended August 25, spot and futures indexes climbed to new heights in over two years.

**BUSINESS ACTIVITY** continued to expand during the fortnight ended August 19, despite sharp curtailment in steel operations necessitated by the five-day switchmen's strike; but gains

*(Please turn to following page)*

# Essential Statistics

| | Date | Latest Wk. or Month | Previous Wk. or Month | Year Ago | Pre-Pearl Harbor* |
|---|---|---|---|---|---|
| **MILITARY EXPENDITURES—$b (e)** | July | 1.18 | 1.20 | 1.20 | 1.55 |
| Cumulative from mid-1940 | July | 398.8 | 397.6 | 384.6 | 13.8 |
| **FEDERAL GROSS DEBT—$b** | Aug. 23 | 257.8 | 257.6 | 255.2 | 55.2 |
| **MONEY SUPPLY—$b** | | | | | |
| Demand Deposits—94 Centers | Aug. 16 | 48.1 | 48.4 | 46.1 | 26.1 |
| Currency in Circulation | Aug. 23 | 27.0 | 27.0 | 27.3 | 10.7 |
| **BANK DEBITS—13-Week Avge.** | | | | | |
| New York City—$b | Aug. 16 | 9.10 | 9.06 | 8.65 | 4.26 |
| 93 Other Centers—$b | Aug. 16 | 13.99 | 13.91 | 11.80 | 7.60 |
| **PERSONAL INCOMES—$b (cd2)** | June | 218 | 217 | 208 | 102 |
| Salaries and Wages | June | 145 | 144 | 137 | 66 |
| Proprietors' Incomes | June | 43 | 41 | 42 | 23 |
| Interest and Dividends | June | 17 | 18 | 17 | 10 |
| Transfer Payments | June | 13 | 14 | 12 | 3 |
| **(INCOME FROM AGRICULTURE)** | June | 19 | 19 | 21 | 10 |
| **POPULATION—m (e) (cb)** | July | 151.8 | 151.6 | 149.3 | 133.8 |
| Non-Institutional, Age 14 & Over | July | 110.8 | 110.7 | 109.7 | 101.8 |
| Labor Force | July | 65.7 | 66.2 | 65.3 | 57.5 |
| Military | July | 1.31 | 1.31 | 1.46 | 1.89 |
| Civilian | July | 64.4 | 64.9 | 63.8 | 55.6 |
| Unemployed | July | 3.2 | 3.4 | 4.1 | 3.8 |
| Employed | July | 61.2 | 61.4 | 59.7 | 51.8 |
| In Agriculture | July | 8.4 | 9.0 | 9.6 | 8.0 |
| Non-Farm | July | 52.8 | 52.4 | 50.1 | 43.8 |
| At Work | July | 45.9 | 50.1 | 43.8 | 43.2 |
| Weekly Hours | July | 37.7 | 41.8 | 39.2 | 42.0 |
| Man-Hours Weekly—b | July | 1.73 | 2.09 | 1.72 | 1.82 |
| **EMPLOYEES, Non-Farm—m (lb)** | July | 44.0 | 44.0 | 42.6 | 37.5 |
| Government | July | 5.7 | 5.8 | 5.7 | 4.8 |
| Factory | July | 12.1 | 12.1 | 11.2 | 11.7 |
| Weekly Hours | July | 40.4 | 40.4 | 38.8 | 40.4 |
| Hourly Wage (cents) | July | 146.1 | 145.4 | 140.8 | 77.3 |
| Weekly Wage ($) | July | 59.02 | 58.74 | 54.63 | 21.23 |
| **PRICES—Wholesale (lb2)** | Aug. 22 | 166.1 | 164.9 | 152.7 | 92.5 |
| Retail (cdlb) | June | 187.5 | 185.7 | 188.3 | 116.2 |
| **COST OF LIVING (lb3)** | June | 170.2 | 168.6 | 169.6 | 100.2 |
| Food | June | 204.6 | 200.3 | 204.3 | 113.1 |
| Clothing | June | 185.0 | 185.1 | 190.3 | 113.8 |
| Rent | June | 123.9 | 123.5 | 120.6 | 107.8 |
| **RETAIL TRADE—$b** | | | | | |
| Retail Store Sales (cd) | July | 12.20 | 11.96 | 10.21 | 4.72 |
| Durable Goods | July | 4.69 | 4.52 | 3.37 | 1.07 |
| Non-Durable Goods | July | 7.50 | 7.44 | 6.84 | 3.65 |
| Dep't Store Sales (mrb) | July | 0.80 | 0.79 | 0.60 | 0.42 |
| Retail Sales Credit, End Mo. (rb2) | June | 10.35 | 10.02 | 8.14 | 5.46 |
| **MANUFACTURERS'** | | | | | |
| New Orders—$b (cd) Total | June | 22.6 | 20.3 | 16.3 | 14.6 |
| Durable Goods | June | 10.6 | 8.9 | 6.5 | 7.1 |
| Non-Durable Goods | June | 12.0 | 11.4 | 9.8 | 7.5 |
| Shipments—$b (cd)—Total | June | 20.7 | 19.9 | 17.6 | 8.3 |
| Durable Goods | June | 9.5 | 8.9 | 7.7 | 4.1 |
| Non-Durable Goods | June | 11.2 | 11.0 | 9.9 | 4.2 |
| **BUSINESS INVENTORIES, End Mo.** | | | | | |
| Total—$b (cd) | June | 55.3 | 55.1 | 55.4 | 28.6 |
| Manufacturers' | June | 31.7 | 31.3 | 32.9 | 16.4 |
| Wholesalers' | June | 9.3 | 9.3 | 8.8 | 4.1 |
| Retailers' | June | 14.3 | 14.5 | 13.7 | 8.1 |
| Dept. Store Stocks (mrb) | June | 2.1 | 2.3 | 2.0 | 1.4 |
| **BUSINESS ACTIVITY—1—pc** | Aug. 19 | 177.5 | 176.5 | 157.8 | 141.8 |
| (M. W. S.)—1—np | Aug. 19 | 208.2 | 207.1 | 182.0 | 146.5 |

## PRESENT POSITION AND OUTLOOK

*(Continued from page 631)*

were at a somewhat slower pace than during the corresponding interval last year, so that the margin of annual improvement narrowed a bit to 14.4%.

* * *

Thus far there has been little abatement in the scramble for durable goods. Expenditures on new CONSTRUCTION climbed in July to a new monthly high of $2.6 billion—25% above a year ago, against a 7-month rise of 19%. Dwelling starts, however, are showing a somewhat slower rate of annual increase. In July, they were only 49% above a year ago, compared with a 7-month increase of 54%. Demand is rising for homes in the countryside as havens of refuge from possible A bomb attacks. Residential building contracts east of the Rockies in July, according to the F. W. Dodge Corp., were 98% ahead of July last year.

* * *

Factory sales of household VACUUM CLEANERS in July were 12% ahead of June, and 73% above the depression's low month of July last year. Iron ore consumption in July was 44% larger than in the corresponding month a year earlier.

* * *

**MACHINE TOOL ORDERS** in July soared to a 7-year monthly high—double the June volume and five times the post-war low touched in July of last year.

* * *

**FREIGHT CAR SHORTAGES** are a serious bottleneck just now that hamper the smooth functioning of our strained economy. The malady will grow worse before conditions can be improved. Expanding military shipments are already sidetracking some civilian goods, and big farm harvests will soon have to be moved. For lack of hopper cars, many soft coal mines are operating on a short work week, though they have enough orders on hand for capacity output. The number of new freight cars ordered in July exceeded 30,000, largest for any month in 26 years, and backlogs of unfilled orders will rise before long to above the 100,000 mark; but it takes time to speed up production. Deliveries in July numbered only 3,464. A few years ago the industry had great difficulty in achieving a monthly production goal of 10,000.

* * *

Though some populous manufacturing centers are already beginning to recruit skilled workers from outside districts, there

# and Trends

| | Date | Latest Wk. or Month | Previous Wk. or Month | Year Ago | Pre-Pearl Harbor* |
|---|---|---|---|---|---|
| **INDUSTRIAL PROD.—1—np (rb)** | June | 199 | 195 | 169 | 174 |
| Mining | June | 151 | 145 | 133 | 133 |
| Durable Goods Mfr. | June | 236 | 231 | 194 | 220 |
| Non-Durable Goods Mfr. | June | 186 | 181 | 161 | 151 |
| **CARLOADINGS—t—Total** | Aug. 19 | 851 | 847 | 731 | 833 |
| Manufactures & Miscellaneous | Aug. 19 | 397 | 392 | 346 | 379 |
| Mdse. L. C. L. | Aug. 19 | 89 | 88 | 92 | 156 |
| Grain | Aug. 19 | 53 | 55 | 51 | 43 |
| **ELEC. POWER Output (Kw.H.) m** | Aug. 19 | 6,370 | 6,253 | 5,579 | 3,267 |
| **SOFT COAL, Prod. (st) m** | Aug. 19 | 11.2 | 10.9 | 7.5 | 10.8 |
| Cumulative from Jan. 1 | Aug. 19 | 299 | 288 | 310 | 446 |
| Stocks, End Mo. | June | 51.3 | 44.8 | 74.2 | 61.8 |
| **PETROLEUM—(bbls.) m** | | | | | |
| Crude Output, Daily | Aug. 19 | 5.7 | 5.7 | 4.8 | 4.1 |
| Gasoline Stocks | Aug. 19 | 108 | 108 | 108 | 86 |
| Fuel Oil Stocks | Aug. 19 | 42 | 42 | 68 | 94 |
| Heating Oil Stocks | Aug. 19 | 65 | 61 | 78 | 55 |
| **LUMBER, Prod.—(bd. ft.) m** | Aug. 19 | 900 | 920 | 737 | 632 |
| Stocks, End Mo. (bd. ft.) b | June | 6.1 | 6.1 | 7.3 | 12.6 |
| **STEEL INGOT PROD. (st) m** | July | 8.09 | 8.13 | 5.78 | 6.96 |
| Cumulative from Jan. 1 | July | 55.2 | 47.1 | 51.8 | 74.7 |
| **ENGINEERING CONSTRUCTION AWARDS—$m (en)** | Aug. 24 | 199 | 250 | 148 | 94 |
| Cumulative from Jan. 1 | Aug. 24 | 7,662 | 7,463 | 5,341 | 5,692 |
| **MISCELLANEOUS** | | | | | |
| Paperboard, New Orders (st)t | Aug. 19 | 266 | 238 | 186 | 165 |
| U. S. Newsprint Consumption (st)t | July | 437 | 489 | 406 | 352 |
| Do., Synthetic | July | 629 | 555 | 674 | 523 |
| Natural Rubber Consumption (lt)t | June | 62.9 | 63.8 | 47.1 | 54.3 |
| Do., Stocks (mpt), End Month | June | 48.1 | 46.4 | 37.2 | 0.5 |
| Pneumatic Casings Production—m | June | 8.5 | 8.6 | 7.4 | 4.0 |

## PRESENT POSITION AND OUTLOOK

is still a large LABOR RESERVE that can be drawn upon as the need arises. Factory weekly man-hours in early July were still only 40.4. At the peak of our World War II effort in 1944 they reached 45.2. Unemployment in early July numbered 3.2 million. It might be cut to a million. And millions of women workers could again be drawn from the home into civilian service. Altogether, it is a safe guess that non-farm man-hours of work could be boosted 25% in an emergency, though at the cost of an inflationary rise in wages.

* * *

There is enough reserve capacity to meet a prospective expansion in demand for COAL; but extension of the war area could bring serious shortages in PETROLEUM products, despite the circumstance that crude output is already 1/6th above a year ago and heading toward a new all-time high. Washington says that motorists have more to fear from gasoline rationing than from a tire shortage if the war grows hotter. Prices for gasoline, fuel, heating and lubricating, oil; have been rising. Strikes at refineries are preventing inventory rebuilding of the latter.

* * *

Biggest and most immediate shortage threat is however in the field of non-ferrous metals, aggravated by stepped-up Government stockpiling.

b—Billions. cb—Census Bureau. cd—Commerce Dept. cd2—Commerce Dept., seasonally adjusted monthly totals at annual rate, before taxes. cdlb—Commerce Dept. (1935-9—100), using Labor Bureau and other data. e—Estimated. en—Engineering News-Record. I—Seasonally adjusted index (1935-9—100). lb—Labor Bureau. lb2—Labor Bureau (1926—100). lb3—Labor Bureau (1935—100). lt—Long tons. m— Millions. mpt—At mills, publishers, and in transit. mrb—Magazine of Wall Street, using Federal Reserve Board Data. np—Without compensation for population growth. pc—Per capita basis. rb—Federal Reserve Board. rb2—Federal Reserve Board, instalment and charge accounts. st—Short tons. t—Thousands. *—1941: November, or week ended December 6.

## THE MAGAZINE OF WALL STREEET COMMON STOCK INDEXES

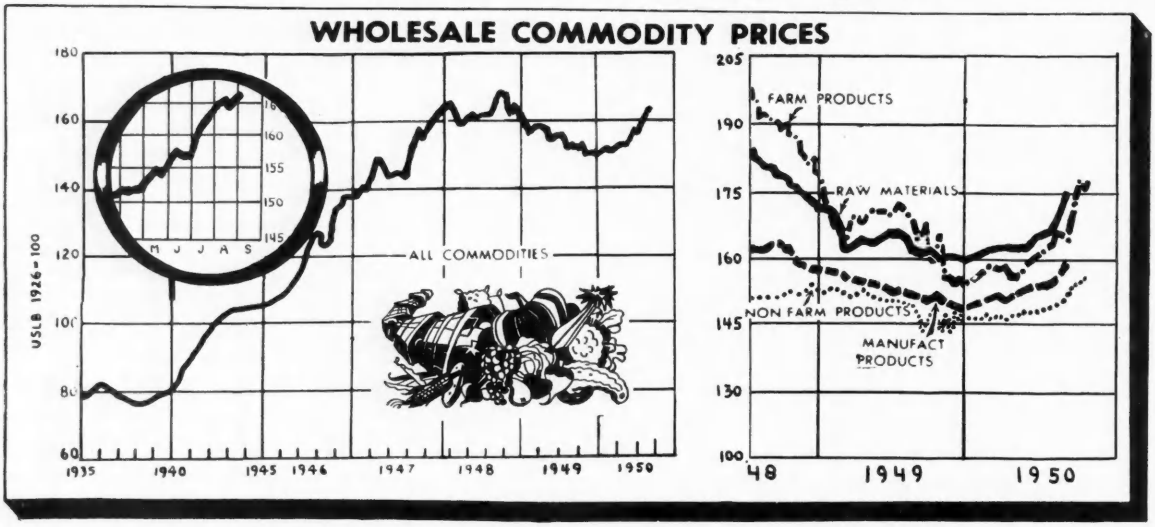
| No. of Issues (1925 Close—100) | 1950 Indexes High | Low | Aug. 18 | Aug. 25 |
|---|---|---|---|---|
| 325 COMBINED AVERAGE | 155.3 | 134.7 | 155.3D | 153.6 |
| 4 Agricultural Implements | 218.1 | 180.7 | 214.6 | 218.1B |
| 10 Aircraft (1927 Cl.—100) | 262.9 | 170.8 | 257.1 | 251.1 |
| 6 Air Lines (1934 Cl.—100) | 538.3 | 450.3 | 513.6 | 501.4 |
| 7 Amusement | 104.4 | 78.0 | 90.9 | 89.3 |
| 10 Automobile Accessories | 230.4 | 190.9 | 222.6 | 217.5 |
| 12 Automobiles | 37.3 | 28.5 | 37.3B | 37.0 |
| 3 Baking (1926 Cl.—100) | 23.3 | 19.0 | 19.9 | 20.0 |
| 3 Business Machines | 276.5 | 226.5 | 255.9 | 247.8 |
| 2 Bus Lines (1926 Cl.—100) | 176.6 | 145.9 | 156.6 | 156.6 |
| 5 Chemicals | 304.2 | 256.4 | 296.4 | 295.0 |
| 3 Coal Mining | 14.3 | 11.3 | 13.6 | 13.7 |
| 4 Communication | 61.6 | 41.9 | 57.4 | 55.2 |
| 9 Construction | 64.9 | 51.3 | 56.2 | 56.0 |
| 7 Containers | 342.1 | 282.1 | 317.0 | 321.4 |
| 9 Copper & Brass | 109.3 | 80.3 | 108.4 | 109.3B |
| 2 Dairy Products | 78.3 | 68.1 | 76.0 | 75.9 |
| 5 Department Stores | 67.2 | 56.6 | 65.9 | 64.9 |
| 6 Drugs & Toilet Articles | 209.8 | 170.2 | 189.3 | 187.1 |
| 2 Finance Companies | 361.8 | 253.8 | 265.7 | 271.6 |
| 7 Food Brands | 181.4 | 162.0 | 173.7 | 174.1 |
| 2 Food Stores | 108.0 | 86.3 | 94.8 | 95.4 |
| 3 Furnishings | 80.8 | 61.1 | 66.3 | 66.2 |
| 4 Gold Mining | 753.5 | 509.7 | 538.9 | 546.7 |

| (Nov. 14, 1936, Cl.—100) | High | Low | Aug. 18 | Aug. 25 |
|---|---|---|---|---|
| 100 HIGH PRICED STOCKS | 96.03 | 85.27 | 95.47 | 94.77 |
| 100 LOW PRICED STOCKS | 185.23 | 151.88 | 185.23D | 182.87 |
| 5 Investment Trusts | 79.9 | 66.5 | 73.8 | 73.1 |
| 3 Liquor (1927 Cl.—100) | 946.2 | 797.3 | 946.2D | 914.6 |
| 11 Machinery | 165.5 | 140.6 | 164.7 | 162.1 |
| 3 Mail Order | 122.9 | 99.6 | 113.3 | 110.5 |
| 3 Meat Packing | 99.1 | 85.9 | 99.1B | 96.5 |
| 12 Metals, Miscellaneous | 186.3 | 139.9 | 184.3 | 186.3B |
| 4 Paper | r284.3 | r213.4 | 284.3Z | 281.9 |
| 30 Petroleum | 306.9 | 241.8 | 306.9Z | 302.9 |
| 27 Public Utilities | 153.7 | 127.7 | 134.7 | 134.2 |
| 5 Radio & TV (1927 Cl.—100) | 35.3 | 18.1 | 29.0 | 26.9 |
| 9 Railroad Equipment | 55.4 | 43.0 | 55.4B | 53.2 |
| 24 Railroads | 28.5 | 22.3 | 28.5B | 28.2 |
| 3 Realty | 35.9 | 30.7 | 33.2 | 33.6 |
| 3 Shipbuilding | 166.2 | 139.7 | 161.5 | 157.5 |
| 3 Soft Drinks | 391.6 | 295.9 | 308.5 | 311.8 |
| 15 Steel & Iron | 129.2 | 96.1 | 129.2D | 128.8 |
| 3 Sugar | 60.7 | 48.7 | 60.7D | 59.6 |
| 2 Sulphur | 353.7 | 301.6 | 353.7U | 349.2 |
| 5 Textiles | 159.3 | 119.9 | 159.3B | 157.0 |
| 3 Tires & Rubber | 42.6 | 32.0 | 42.4 | 42.6D |
| 6 Tobacco | 88.2 | 77.3 | 81.5 | 81.0 |
| 2 Variety Stores | 352.3 | 313.2 | 324.0 | 321.5 |
| 19 Unclassified (1949 Cl.—100) | 110.0 | 93.2 | 105.6 | 106.2 |

New HIGH since: B—1948; D—1946; U—1928. Z—New all-time HIGH. r—Revised.

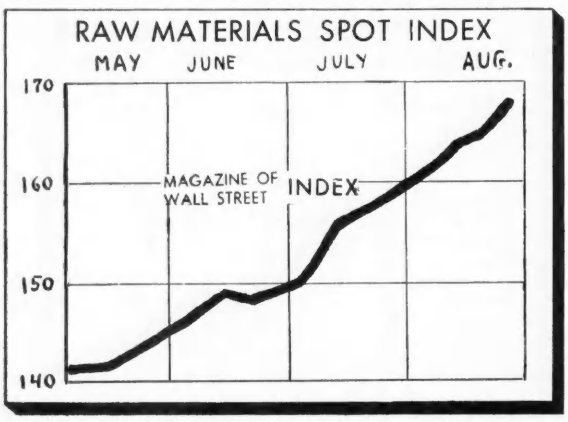
# Trend of Commodities

Commodity price indexes, spot and futures, extended their advance during the fortnight ended August 25, reaching new highs for over two years. Cash wheat closed 11 cents lower on the fortnight; but lead advanced 2 cents, while wool rose 11% and rubber 24%. Tin at one time touched $1.075 a pound, only 2½ cents short of its record high in 1918. Acting upon advice of industrial users, the Commerce Department has ordered a 13% reduction in consumption of rubber for civilian processing during the remaining 4 months of 1950. Nearly all of the cut will probably be made in natural rubber which, at 56 cents a pound, costs 3 times as much as synthetic at the Government-fixed price of 18½ cents. But whatever is saved under this program will go into the Government stockpile and hence have no effect upon the price of crude. U. S. consumption of apparel wool this year is expected to reach 415 million pounds, up 21% from last year; but domestic production will be no more than last year's record low of 111 million pounds. The Government would like to acquire a big hunk of the Australian wool clip, and keep it away from Russia; but nothing definite has been arranged yet to implement this desire. Having contracted for virtually all the surplus sugar of Cuba, Puerto Rica and the Virgin Islands—totaling 750,000 tons, the Government has clamped on export controls requiring licenses for shipments to all countries except Canada. The domestic sugar quota for 1950 has been boosted to 8.7 million tons—largest on record, and 1.12 million tons above last year. The Government is also dickering with Hawaii for an additional 100,000 tons. Farmers have reclaimed virtually of the 3,190,150 bales of cotton pledged under 1949-crop price support loans.




**U. S. DEPARTMENT OF LABOR INDEX OF 28 BASIC COMMODITIES**
**Spot Market Prices—August, 1939, equals 100**

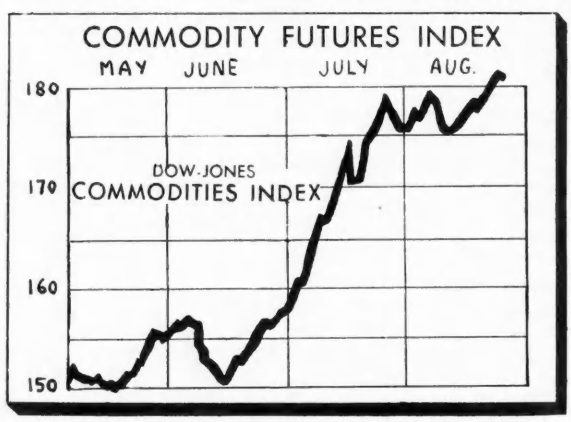
| | Date Aug. 28 | 2 Wk. Ago | 1 Mo. Ago | 3 Mo. Ago | 6 Mo. Ago | 1Yr. Ago | Dec. 6 1941 |
|---|---|---|---|---|---|---|---|
| 28 Basic Commodities | 318.3 | 307.7 | 303.0 | 265.7 | 247.9 | 247.6 | 156.9 |
| 11 Imported Commodities | 343.8 | 331.2 | 314.3 | 266.3 | 250.5 | 247.3 | 157.3 |
| 17 Domestic Commodities | 302.9 | 293.4 | 296.0 | 265.3 | 246.3 | 247.8 | 156.6 |
| 7 Domestic Agriculture | 361.2 | 348.0 | 354.4 | 329.1 | 304.6 | 297.8 | 163.9 |
| 12 Foodstuffs | 368.5 | 363.9 | 369.4 | 334.9 | 307.1 | 297.9 | 169.2 |
| 16 Raw Industrials | 296.4 | 282.7 | 272.1 | 236.8 | 220.9 | 223.1 | 148.2 |




**14 Raw Materials, 1923-25 Average equals 100**

Aug. 26, 1939—63.0 Dec. 6, 1941—85.0

| | 1950 | 1949 | 1947 | 1945 | 1941 | 1939 | 1938 | 1937 |
|---|---|---|---|---|---|---|---|---|
| High | 168.5 | 161.5 | 164.0 | 95.8 | 85.7 | 78.3 | 65.8 | 93.8 |
| Low | 134.2 | 134.9 | 126.4 | 93.6 | 74.3 | 61.6 | 57.5 | 64.7 |




**Average 1924-26 equals 100**

| | 1950 | 1949 | 1947 | 1945 | 1941 | 1939 | 1938 | 1937 |
|---|---|---|---|---|---|---|---|---|
| High | 181.8 | 146.2 | 184.4 | 111.7 | 88.9 | 67.9 | 57.7 | 86.6 |
| Low | 140.8 | 128.6 | 123.0 | 98.6 | 58.2 | 48.9 | 47.3 | 54.6 |

# Keeping Abreast of Industrial and Company News

Recent Government restrictions on the use of crude and man-made rubber at a time when demand is abnormally strong are testing the resourcefulness of manufacturers in this field. To meet the challenge, **B. F. Goodrich Company** is reopening a reclaim rubber plant in Akron, scheduled to be in full operation by early fall. For the past two months, reclaim output has been virtually sold out, and because of the boom, combined with high prices for crude, it is possible that reclaim rubber production may mount to a record peak of 300,000 long tons.

The Philippine Government has awarded a $4.6 million contract to **Westinghouse Electric International Company** for the development of a chemical fertilizer works and a 25,000 kw hydro-electric plant in Mindanao. The fertilizer facility will have an annual capacity for 50,000 tons of ammonium sulphate to stimulate production of sugar and rice, and will receive its power from the projected new generating plant nearby. The prospect of effecting a $4 million exchange saving yearly on the fertilizer produced motivated the project. A little more than a year will be required for completion.

Operations slowed by shortages of component parts, together with advanced materials costs have prompted leading concerns in the television industry to adjust their prices upward on a broad scale of late. Latest to announce a lift has been **Allen B. Du Mont Laboratories,** which have put into effect price increases of 10% on several of their new 1951 models. Despite this boost, though, the new Du Mont sets are still selling substantially below the 1950 line, due to price reductions earlier in the year.

In Gary, Indiana, a new $7 million automobile body plant constructed by the **Budd Company** has begun preliminary production, and by October should be nearing capacity operations. Covering 293,000 square feet and located on a 137 acre tract, this structure is claimed to be the most modern of its kind in the world. Upon installation of final equipment, the plant will accommodate 41 huge presses from which, tampings will be made to be finished and conveyed over a 1089-foot line for loading on trucks and railroad cars. Provision has been made to park about 400 automobiles belonging to employees and officers, while locker rooms, a cafeteria and canteen are spacious and clean. The entire area will be fully landscaped to enhance the surroundings.

The **Ohio Edison Company,** now operating 14 plants capable of producing more than 1.1 million kilowatts, plans to build another, and the largest of all, on the Mahoning River near Niles, Ohio. This new steam-electric generating platn will cost about $20.6 million, and at the start should produce 106,000 kw of electricity. The size of the plant, however, is designed to permit eventual installation of another similarly large generating unit. In efficiency this new facility will rank as an outstanding project in the utility field. Under continuous operation, it is expected that the plant will generate electricity at an efficiency of three-quarters of a pound of coal per kilowatt hour.

Big new pipe-laying machines recently began to cut trenches in a Texas hay field, heralding the start of a $120 million project to transport natural gas from the rich Texas Gulf Coast area to the Chicago region. A subsidiary of **Peoples Gas Light & Coke Company** has put construction crews numbering more than 2000 men at work to assure completion of the new 30-inch pipeline by late 1951. Stretching more than 1330 miles along the right of way, the transmission line will have an initial capacity of 305 million cubic feet of natural gas daily, and when additional compressor stations are constructed, the figure will rise to 500 million cubic feet daily, thus matching the present capacity of the dual pipelines of an affiliate of Peoples Gas which extend to Chicago from the Texas Panhandle and western Oklahoma fields.

On August 28 the **Socony-Vacuum Oil Company** announced completion of its first successful well in Canada, 50 miles southeast of Edmonton in Alberta Province. The well has been designated Socony-Vacuum Flint No. 1. Its oil is sweet, and with 33.8 gravity and a 500-to-one gas-oil ratio. The well taps 29 feet of Devonian limestone at a depth of 4507 feet, and from tests with a half-inch choke flowed at daily rates ranging from 200 barrels daily to 700 barrels. This development is interesting because previously the company had made nine unsuccessful drillings in Alberta, where it has 4.5 million acres under lease.

The continuing demand for additional coal to make more steel for national defense purposes has induced **H. C. Frick Coke Company** to open a new 4000-ton a day coal mine in Washington County, Pa. Another mine of the same capacity will also be opened in Fayette County that had been closed since 1928. The new mine will require more than a year to get into full operations, as will also the one to be rehabilitated. For the former, a river tipple will be built to carry coal by barge to the Carnegie-Illinois Steel's coke plant 42 miles distant, but the output of the reopened mine will go to nearby beehive coke ovens.

Massachusetts is leading the nation in the adoption of rubber in road construction to reduce maintenance costs, cut down traffic noises and increase riding comfort. A 5½ mile, four-lane "rubber highway," the longest of its kind in the world, has been formally opened to traffic on the old Boston Post Road, now U. S. Route 1, the main highway extending from Maine to Florida. By combining asphalt with a new meltable rubber compound called Surfa-Sealz, a product of **United States Rubber Company,** it is believed that maintenance costs which were running as high as $1000 per year will be eliminated. Current plans of the highway officials include resurfacing of another 20 miles with rubber-asphalt in the Commonwealth very shortly.

Successful testing of a giant transformer, almost as large as a five-room house, has just been completed by **General Electric Company** in its Pittsfield, Mass. plant. Rated 100,000 kw, the three phase, super-fan cooled transformer is the most powerful yet designed to operate at voltages as high as 138,000 volts. As recently as 1940, there were no facilities that could produce a unit of such huge proportions, as cranes of 250 tons capacity were then unknown although esssential for the work. New manufacturing facilities of General Electric were completed just in time to do this job. The monster transformer was the first of four to be shipped eventually to the Union Electric Company of Missouri on special drop-frame railroad cars, of which there are only three in the country.

**Pacific Fruit Express Company,** owned jointly by the Union Pacific and Southern Pacific Railroads, will add another 2100 refrigerator cars to its present big fleet of 38,000 units, already the world's largest. The new acquisition will raise to approximately $125 million the cost of PFE's modernization and general repair program since the end of World War I Included in the latest addition will be 100 heavily insulated super-giant 50-foot cars for use in moving the steadily increasing traffic in frozen foods. Independent car builders will get none of the business as the company plans to construct all of the equipment in its own shops.

Apropos of cross country freight shipments, it is interesting to learn from **United Air Lines** that cut flowers delivered to florists across the country lead the list of air freight commodities carried by the company. In order of volume, machines and machine parts, wearing apparel, electrical equipment, automotive parts and accessories, dry goods, radios and parts, aircraft parts, chicks and poults, and printed matter bring up the procession.

**Lever Brothers Company** has awarded a contract to the George A. Fuller Company for construction of its new 21-story headquarters that will be an outstanding feature of New York's Park Avenue by the early fall of 1951. This unique structure will be entirely occupied by Lever Brothers and its subsidiaries, Pepsodent, Jelke Good Luck Products and Harriet Hubbard Ayer, Inc. The main structure, providing 280,000 feet of floor space, will be confined to one-fourth of the lot area to assure permanent light, air and views. An arcade opens to the street on three sides and the ground floor will allow for a large center garden, while a landscaped terrace will be a feature of the second floor. The "skin" of the building will be composed entirely of stainless steel and heat-resistant glass. Although the glass will have a blue tinge on the outside, from within it will be colorless and will filter out 30% of the sun's radiant heat.

A voluntary price freeze for a year to serve as a brake on the current inflationary trend has brought commendation to **Charles Pfizer and Company.** This the world's largest producer of citric acid, a major chemical product, has established a guaranteed price to hold for a full year ahead, thus eliminating all scare buying and hoarding of this essential chemical. Citric acid is the standard acidulent in beverages, jams and jellies, and is extensively used in candies, frozen foods, gelatin desserts, etc. It is interesting to note that in World War II, Charles Pfizer Company established a similar price freeze on this acid.

Developments in Korea have brought quickly a substantial military order to **Abbott Laboratories** and the company has been prompt in shipping. The order called for 25 million Halazone tablets to be used for water purification purposes. Abbott is the largest producer of the item. The tablets were flown from Chicago to San Francisco in four cargo planes and from there are proceeding by ship to the battle zone. Halazone tablets rapidly sterilize contaminated drinking water, with one tablet sufficient to purify a pint.

**Radio Corporation of America** is voluntarily surrendering to the public three of television's best known trade marks and a famous miniature tube name. Iconoscope, first electronic "eye" of the television camera; Kinescope, picture tube of television home receivers; Orthicon, an improvd TV pick-up tube, and Acorn, a tiny radio tube commonplace in portable sets, will no longer be registered in the U. S. Patent Office. RCA feels that its step will stimulate progress in the radio and electronic fields in which the company is a major factor.

One result of interrupted trade with Red China has been a spectacular rise in the price of long China bristles in wide demand by professional painters requiring the highest grade of brushes. Back in 1932, according to **Pittsburgh Plate Glass Company,** a leading producer of brushes, an unlimited supply of fine China bristle was available at 64 cents a pound. By 1939 the price had risen to $2.30 a pound, but currently the average price tag reads no less than $11, recently advancing 20 cents a pound within two weeks. The Communist Government controls the export of bristles and can raise prices at will, but now and then the urge for American dollars allows a limited amount of trade.

The **du Pont Company** has announced plans for the eighth major expansion of its nylon manufacturing facilities since the end of the late war, and the second at its Martinsville, Va. yarn plant. More than 100,000 square feet of floor space will be added to the plant's present area of 500,000 square feet. The capacity of the Martinsville plant was virtually doubled by a major addition in 1945-46, attended by completion of a new plant in Texas to manufacture essential "nylon salt." A third yarn plant was built in Tennessee in 1948 and is now being expanded. Several other facilities connected with nylon are also being expanded and improved. Altogether, the record pretty well reflects the steadily increasing demand for nylon products throughout the land.

# Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET *will* answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. This service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject only to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities* at reasonable intervals.
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope.*
4. No inquiry will be answered which is mailed in our postpaid reply envelope.
5. Special rates upon request for those requiring additional service.

### Philco Corporation

*"With the strong demand for television sets in recent months I am interested in finding out how Philco Corporation fared as to sales volume and earnings and company's prospects in the national defense program."*
*B. E., Hernando, Florida*

Sales of Philco Corporation in the first six months of 1950 totaled $147,012,000 and net income was $6,672,000, which was equivalent after preferred dividends, to $3.86 per common share.

In the first six months of 1949, sales totaled $103,257,000 and net income was $1,998,000 or $1.08 a share after preferred dividends.

In the second quarter of 1950, sales of Philco Corporation were $67,525,000 and earnings were $2,598,000 or $1.49 per share after preferred dividends.

In the second quarter of this year, Philco absorbed the costs of developing and starting production on its new 1951 line of television sets and radio receivers. Production on the new lines has already reached substantial volume. Demand for Philco's other products continues strong and the company has had to allocate refrigerators, freezers, air-conditioners and ranges, as well as television and radio receivers to distributors and dealers.

In addition to carrying on its civilian production, Philco has set aside separate facilities which are being devoted exclusively to important government work in the radar, electronics and thermal fields. Philco is one of a limited number of industrial concerns used by the government for the past several years to carry on advanced research and the engineering development of new radar, communications and a variety of electronic equipments. This work is an important phase of the nation's defense program, and the company is in a position to very substantially increase its production for the government, while at the same time it carries on a high volume of civilian production.

Dividends in 1949 amounted to $2.00 per share. Recent quarterly dividend has been raised from 50¢ to 75¢ per share and total payments thus far this year were $1.75 per share.

### Eastman Kodak Company

*"Please report the effect of the Korean war on Eastman Kodak Company's sales volume and recent earnings."*
*F. B., Paterson, N. J.*

Eastman Kodak's net earnings for the first half (24 weeks) of 1950 were $26,162,882, or $1.90 per common share. This compared with $21,646,085, or $1.65 a share for the corresponding period in 1949.

Sales were $181,665,329 against $179,876,082 in the 1949 period. The 1949 sales figure is adjusted to the company's new basis of consolidation, which includes subsidiaries in the United States only.

The first quarter of 1950 sales lagged behind 1949 but the second quarter brought a steady sales increase for a number of the company's major products and the result being that in the first half year the company did a little better than holding its own in total sales, compared with 1949 and showed a rise in earnings.

Two factors were especially important in the good sales total and earnings. First, increased sales of photographic film and papers allowed for increased production. Second, there was a great improvement over last year in sales of the acetate yarn and staple of associate company, Tennessee Eastman Corporation. The latter corporation has products in the textile, plastics and chemical fields.

Recordak Corporation's sales of microfilming materials, equipment and service continued at a good rate though off slightly from 1949. Sales of the Distillation Products Industries' division—in the vitamin concentrate and high-vacuum equipment fields—were off sharply in dollar volume, mainly because of reductions in some vitamin prices.

Orders for most of the company's major peacetime products have risen since the start of the Korean war. Some part of this increase in the photographic field may be due to the rebuilding of dealer inventories that had been somewhat on the low side recently pending a decision on excise tax cuts. Also, uncertainty on the part of customers as to the effects of government orders on Eastman's production has added to increased demand.

In World War II, the photographic industry was able to take care of government needs as well as essential civilian needs. Since that time, the industry has improved its facilities and increased its capacity substantially.

Since the start of the Korean war, the size of some of Eastman's government contracts has been increased, deliveries had to be stepped up in some cases and there has been an overall increase in amount of government work. As yet, however, the amount is moderate in

relation to the total business of the company.

Dividends totaled $1.70 a share in 1949 and similar payments are expected this year.

### United Gas Corporation

*"I understand that the natural gas industry is a growth industry and therefore would be interested in obtaining information as to United Gas Corporation's recent revenues and prospects over coming months. I have been a subscriber to your publication for a good many years and find the articles and editorials very interesting and informative."* — *F. J., Trenton, N. J.*

United Gas Corporation and subsidiaries showed consolidated net income of $9,777,294 for the six months ended June 30, 1950. This was equal to 92¢ per share on the 10,653,302 shares of common stock outstanding, and it compared with consolidated net earnings of $8,901,022 or 84¢ a common share for the first six months of 1949.

Consolidated net earnings for the twelve months ended June 30, last, amounted to $16,079,792 or $1.51 a common share, compared with $15,303,268 or $1.44 a share shown for the twelve months ended June 30, 1949.

Improvements have been experienced in all classes of operating revenues in the first six months of this year, with the exception of revenues from crude oil which had been affected by a slight drop in price received but in the main by curtailment of production due to proration, although in the month of July, there was some increase in the producing days. The market for natural gasoline and other liquid products also shows recent improvement in price.

New industrial gas sales contracts are being made to customers on the present system and to other pipe line companies. Rates are being adjusted upward on industrial contracts now in force when their present terms expire.

Operating expenses have increased due principally to increased cost of gas of approximately $3 million, of which $1,500,000 is due to the increased unit cost of gas purchases and the balance is due to increased volumes purchased to supply additional sales.

The increased and increasing demands for natural gas has made it necessary to reinforce and enlarge the pipe line system in a major way. An application has been filed with the Federal Power Commission for a Certificate of Public Convenience and Necessity to authorize United Gas Pipe Line Company to construct approximately 1,000 miles of large diameter lines to make gas available in increasing volumes to presently connected customers, new customers of the present system and to supply gas to other pipe line systems.

Dividends of $1.00 per share were paid in 1949 and the same rate is being paid currently.

### American Agricultural Chemical Company

*"I am a new subscriber to your magazine and this is my first inquiry. Will you please advise on American Agricultural Chemical's operations and earnings over the past year or two?"* — *T. L., Boston, Mass.*

American Agricultural Chemical Company for the fiscal year ended June 30, 1950 showed net sales of $44,383,666, net profit of $3,834,627, equal to $6.11 per share. This compares with 1949 fiscal year net sales of $46,514,747, net profit of $4,224,980, equal to $6.73 per share.

Consolidated balance sheet as of June 30, 1950 showed total current assets of $25,006,353, total current liabilities of $5,368,002, leaving net current assets of $19,638,351.

Capitalization consists solely of 627,969 common shares outstanding.

Company is one of the leading producers and distributors of fertilizers in the country. It also produces numerous other chemicals. Phosphate rock, an important raw material, is mined from owned deposits in Florida, while other fertilizer ingredients, such as nitrate, potash and sulphur, are purchased.

Production of chemicals in recent years has grown in importance so that now it accounts for a substantial part of the total business volume.

Dividends including an extra totaled $4.50 a share in 1949. Dividend payments this year are at the regular quarterly rate of 75¢ per share and an extra of $1.50 was declared payable September 28, making total payments thus far in 1950 $3.75 per share.

### Davison Chemical Corporation

*"Please report break-down on sales volume of the principal divisions of the Davison Chemical Corp. business and recent consolidated net income and financial position."* — *M. B., Cumberland, Md.*

The Davison Chemical Corporation reported for the year ended June 30, 1950, consolidated net income of $2,159,536 after taxes, equal to $4.20 per share of capital stock outstanding, compared with $2,275,884 and $4.43 per share in the 1949 fiscal year.

Sales the past year were $34,974,856, second largest in the corporation's history, and compared with $37,350,073 in the peak year of 1949.

The balance sheet as of June 30 showed net working capital of $11,562,229, higher by $1,454,043 than the previous year's figure. Current assets this year were $13,516,969 against $12,595,937 in 1949; current liabilities were $1,954,740 against $2,487,751. Capital stock and surplus totaled $21,365,174 on June 30, representing a book value of $41.56 per share for the 514,134 shares of capital stock outstanding.

Sales of industrial chemicals account for 40% of the corporation's total sales, as compared with 37% for mixed fertilizers and 23% for phosphate rock and superphosphates. The corresponding figures for 1937, when a program of diversification was launched, were 11% for industrial chemicals, 76% for mixed fertilizers and 13% for phosphate rock and superphosphates.

$1,561,042 was spent for additions and replacements of plants and equipment during the past year.

While many of the plant's facilities have been operating at a high percentage of capacity, the corporation's position is such that it can move promptly to increase production if the recent changes in the international situation develop additional demand for its products.

Dividend payments are 37½¢ per share quarterly.

### Allied Kid Company

*"Please furnish information as to principal products produced by Allied Kid Company and comparative profits for the past two years."* — *B. F., Baltimore, Md.*

Allied Kid Company operates three tanneries in Wilmington, Delaware, one in Camden, New Jersey, and a controlled subsidiary in Waterboro, Maine.

Besides Kid, the company manufactures horsehide and patent leather, but Kid leather in suede and glazed finishes is Allied's principal product. The greater part of Kid sales consists of staple browns and blacks but a substantial volume is on fancy

(*Please turn to page* 644)

## How Much Inflation Through Defense Spending?

(*Continued from page* 606)

flationary situation. Thus as we move even into a limited military program, it is essential that we also promptly move into the financial and economic policies that go with it if the economy is to remain sound, if inflation is to be held in check. These policies, as outlined in the foregoing, won't be pleasant medicine to take, nor a popular medicine to prescribe. But unless we take it, we shall ultimately find the disease—pernicious inflation—far worse than the medicine.

In the final analysis, how much inflation we shall have will depend directly on the restraints we are willing to impose on ourselves to fight inflation. Since civilian production will remain high, thanks to our enormous productive capacity and the limited needs of our preparedness efforts, these restraints may not even be too onerous, provided we forget politics as usual and approach the matter realistically. In that case, the inflationary threat would wane substantially. All the more reason, why we should follow such a course. If we do, we shall find that present inflation fears are outrunning realities by a wide margin.

## New Outlook For Rubbers

(*Continued from page* 627)

force in the industry, formerly subjected to wide swings in the price of natural crude rubber. In theory, it became practical to use synthetic rubber exclusively, especially after the more efficient "cold rubber" made its appearance, but international considerations in the past have prevented realization of these expectations.

By and large, the rubber industry should experience little difficulty in adjusting operations to a semi-war basis, or for that matter to all-out military production if that enters the picture. It is yet too early, however, to appraise how much effect allocations of benzene and styrene for rubber production may have on the chemical divisions of the industry. Output of plastics throughout the entire economy may have to be curtailed, as the supply of benzene and styrene essential in plastics manufacture is already extremely tight.

To produce the projected 675,000 tons of synthetic rubber would require an estimated additional 100 million pounds or more of styrene, and as this coal tar derivative at present is mainly obtained from the steel industry, already working at full capacity, production will be difficult to increase in quick order. In the circumstances, the plastics divisions of the rubber industry, together with manufacturers of plastic toys, nylons, detergents, radio cabinets and insecticides may have to share their normal supply of styrene for increased production of synthetic rubber. Before too long, on the other hand, many presently shut-down war plants built to produce styrene can be reactivated to assure more ample supplies of this currently scant material. Meanwhile new processes are being developed to derive synthetic benzene from petroleum.

On an appended table we list eight leading rubber manufacturers, with statistical information pertinent to their operations in 1949 and in the first half of the current year. A brief study of earnings will reveal that improvement was achieved by all these concerns in the first six months of 1950, irrespective of their stature, with per share net income running well above the comparable period of 1949.

Two concerns, Dayton Rubber and Seiberling Rubber, reported substantial profits compared with deficits in the preceding year. Among the "Big Four," volume gains were general, attended by moderately wider net margins, and a consequent uptrend in earnings. The progress of B. F. Goodrich was outstanding, with volume of $231.6 million up about 22% compared with the first half of 1949, and net earnings of $8.76 higher by 45% even after allowing for $3 million special reserves and exceedingly liberal provision for income taxes at a rate of 45.8%

Volume of Goodyear Tire & Rubber for six months was 14% higher than a year earlier, and earnings on the larger sales rose to $5.08 from $3.24 per share. Although sales of General Tire & Rubber advanced only nominally, improved cost controls enabled the company to report net earnings of $2.44 per share for six months ended May 31 versus only 41 cents in the same 1949 span. Earnings of U. S. Rubber Company advanced to $3.55 a share from $2.30. Net income of Firestone Tire & Rubber followed the general industry uptrend with a rise to $6.68 per share for six months ended April 30 compared with $4.02 a year earlier.

The momentum gained in the first half year may not fully hold in the third quarter, due to the extraordinary spurt in natural rubber prices during this period, although advanced prices for tires will prove an offset. Demand for tires has been consistently strong despite the fact that tire prices have been raised four times within a year. Even allowing for increased tax rates applicable to second half year earnings, net income of the leading rubber concerns should be very satisfactory for full 1950, as reflected by increased dividend liberality by several companies and a good prospect for others in the near term.

In view of the bright outlook for the rubber industry and the fact that current yields on the sounder shares, even based on 1949 dividends are quite liberal, carefully selected equities in this group hold considerable investment appeal. Shares of B. F. Goodrich, whose dividend policies have been ultra-conservative to date, and those of Firestone Tire & Rubber, in our opinion deserve consideration for the average portfolio.

## Have Metals Discounted Improved Earnings Outlook?

(*Continued from page* 620)

1950. The postwar development of innumerable products made from this light, strong material, advantages derived from shortages and rising prices for competing metals, together with stepped-up demand from the aircraft industry, have created favorable operating conditions for the relatively few large aluminum concerns. According to the Commerce Department, production of about 600,000 tons of aluminum ingots in domestic plants and imports of about 475,000 tons from Canada and other sources in the current year will be insufficient to meet all demands.

The squeeze promises to become more severe when the Munitions Board soon begins to enter the market for stockpiling aluminum, a move that until now has

been on a very limited scale. Federal accumulation of the metal has been mainly confined to acceptance from the Reynolds interests of ingots representing part payment for Government plants acquired. The recent appropriation of about $600 million by Congress for further stockpiling strongly suggests that sizable quantities of aluminum will be added to the pile. Negotiations to acquire a large Canadian tonnage are said to be under way.

While wage costs of the aluminum companies have risen substantially, a moderate rise to 17½ cents a pound for ingots, together with advanced prices for many fabricated items, should sustain satisfactory earnings throughout this year. On the other hand, taxes will rise and in view of the military emergency, strict allocations of aluminum for civilian use may be established. In that event, margins on the prospective larger portion of Government business may be somewhat narrowed.

Since aluminum production current is about 70% larger than before the last war, the recent tight supply under peacetime conditions portrays the increasing popularity of the metal. Early this year, the Aluminum Company of America completed a large new plant in Texas that increased the industry's productive capacity by 9%, and Reynolds Metals in the spring activated an idle "potline" to swell supply. The Government now owns only two wartime aluminum plants, but heavy power costs have precluded their operation. Reynolds has bought part of the equipment in one of these facilities, and the RFC is dickering with this concern and ALCOA to operate all the idle plants, even if on a cost-plus basis. On the whole, it is planned to lift aluminum production by 18% before the end of 1951, either through Government aid or company action.

*TIN*: Commercial quantities of tin are not found in the United States, although this metal is one of our most essential commodities. Patino Mines & Enterprises, controlling large bodies of ore in Bolivia, is our principal supplier. Current domestic consumption is around 5,500 tons monthly and the Government is thought to have stockpiled about 100,000 tons. The producers experienced lean earnings in the first half of 1950 when prices averaged about 76 cents a pound, but since July the price has soared to around $1.02. Regardless of this improvement, though, the earnings of Patino may not respond with much vigor, due to stiff restrictions and exchange curbs imposed by the Bolivian Government.

*MISCELLANEOUS METALS*: The outlook for an uptrend in earnings by International Nickel Company of Canada is rather promising. This concern produces about 80% of the world supply of nickel, an item certain to be in heavy demand for munitions production, and is also one of the largest miners of copper. By advancing the price of nickel to 48 cents a pound from 40 cents last June, the company seems assured of a moderate rise in earnings in the current year.

Molybdenum Corporation for similar reasons should experience some improved earnings as the largest domestic processor of tungsten ores and molybdenum, both highly essential in the production of steel alloys. The same holds true of Vanadium Corporation, owning the world's largest deposit of vanadium in Peru and processing numerous compounds in United States plants. Higher prices now prevailing enhance the company's earnings potentials, following a deficit incurred in 1949.

Shares in the non-ferrous metals group, especially the coppers, have risen sharply from their 1950 lows, and in many cases are now selling at a peak since 1948. This suggests that the rapid rise in metal prices may now be rather well discounted and that increased selectivity in commitments is in order. Admittedly, however, the current position of the industry is sounder than for some time past and earnings should continue quite satisfactory despite the prospect of higher taxes and possible price ceilings.

## Will Consumer Demand Support Further Retail Boom?

(*Continued from page* 623)

granted that excess profit taxes will not be applied in the current year and that the new corporate income rate may not exceed 45% for normal and surtaxes, accounting methods vary so greatly that generalities do not count for much. Still, even allowing for a 45% tax rate, final net earnings of the leading retailers could remain somewhat above the 1949 level, and there is more than a good chance that year-end dividend disbursements will become more general as well as more liberal.

*MAIL ORDER HOUSES*:

Larger offerings of durable goods and home furnishings enabled the mail order firms to report a volume gain of about 5% through June, and in July sales seemd to have verged on the spectacular. Heavy sales of refrigerators, ranges, tires and other durables lifted volume of Sears Roebuck in July 54.4% above the corresponding period a year earlier. Since sales for the preceding six months were at peak levels of 16% above the year before, it seems obvious that the earnings of this leading mail order concern and retail chain operator have been heading substantially upward, although definite figures are not available at this writing.

The same holds true of other mail order firms, with Montgomery Ward's volume up 3.2% for six months ended in July, that of Spiegel higher by 14% and with Alden's reporting a gain of 6% for 14 weeks ended May 5, 1950. All of the foregoing concerns undoubtedly have experienced sharp gains in volume in July and probably in August, although scare buying has considerably diminished of late and sales could hardly improve at the rate established by Sears Roebuck. The volume of Spiegel, however, advanced 47.9% in the month of July, largely reflecting the heavy demand for "big ticket" items.

While sales comparisons during the balance of the current year should continue to be very favorable, allowance must be made for a marked subsidence in scare buying, as well as the possibility of an ultimately less ample supply of goods, especially durables. Through August, at least, reports that department store business on a countrywide scale was from 15% to 20% more active than a year earlier, suggests that the mail order houses with extensive chains of retail stores may have fared even better, as was the case earlier in 1950. Looking ahead into the final four months, the high income of farmers and workers who predominate in the clientele of the mail order firms should enhance the sales potentials of the group.

As for mail order earnings,

these should average much higher than in 1949, despite the impact of heavier taxes. With volume enlarged, catalog lists expanded, with an increased number of modern retail outlets and the institution of numerous operating economies, margins should widen and net earnings generally rise. Before giving effect to an increase in tax rates, earnings of Sears Roebuck may rise to around $6 per share in the fiscal year ending January 31, 1951, those of Montgomery Ward to $9.25, Alden's to $4.25 and Spiegel to $2 a share. If this proves true, increased dividend liberality in some form would be expected towards the end of the current year.

*DEPARTMENT STORES*:

Despite a decline of about 1% in over-all department store volume in the first half, operating margins generally widened from depressed levels a year earlier, and earnings showed moderate improvement. The experience of individual companies varied considerably, according to differing promotional policies. Throughout the forepart of 1950, demand for soft goods lagged and to accelerate turnover, many stores continued to make bargain offerings well into the summer months. Since then the pick-up in demand for all classes of consumer goods has benefitted store operations.

Aside from a few large cities in the South, department store sales in the January-April period declined from 1% up to 8% in leading centers on a country-wide basis, the average dip amounting to 3%. Price mark-downs rather than reduced unit sales accounted mainly for the downtrend in dollar volume. Progressive improvement, however, followed, with May sales rising 4% from the preceding year's level, rising in the June 10 week to 5% and again to 7% by July 8. With the war scare scramble for goods at fever pitch, total department store volume for July soared for a gain of 30%, with a peak of 46% established in the final week of the month.

To what extent the volume pendulum has since tended to swing the other way is pretty well shown by reports of the Federal Reserve System that as of August 19, the weekly U. S. average gain compared with the corresponding period of 1949 had receded to 26%. More recently FRB banks have announced that sales of six large Philadelphia department stores in the week ended August 26 showed a gain of 12% over a year ago compared with 29% the week before, while the gain for New York and Brooklyn department stores in the week of August 26 was 10% compared with 22% in the preceding week.

The foregoing statistics indicate rather clearly that demand has now levelled off substantially and may recede somewhat further if the summer rush to buy goods proves to have "robbed" sales in near term months. On balance, though, it seems probable that moderate volume gains will continue throughout the remainder of the fiscal year. In any event, through August 19, the prevailing spurt in volume had overcome an early-in-the-year recession and established a net gain since January 1 of 4%.

Holders of department store shares should realize that the gains we have discussed represent only average experience. Progress in various cities and by individual companies has been spotty, hence generalities lose some force. In the last week of July, for example, stores in Dallas, Texas, reported volume up 45% whereas the gain for Boston, Massachusetts, was only 18%. For the full period from January 1 to August 19, New York department store volume was 1% below the year before, in contrast to a gain of 9% by stores in Atlanta, Georgia.

The recessionary sales trend earlier in the year induced greater emphasis on operating economies by most of the large department store managements and these progressively bore fruit when consumer demand began to rise. Since overhead expenses have been lowered in the past year, operations in the final four months of the current

year, when sales normally amount to more than 40% of the annual total, should be productive of more satisfactory earnings. Cautious inventory policies at the start of 1950 reduced holdings of merchandise by about 4% compared with a year ago, but increased confidence shortly thereafter encouraged placement of sizable orders. By June, outstanding orders were about 32% above the year before and inventories had risen about 5%. Hence in these respects, the stores were well situated to meet the sharp spurt in demand that followed in the recent two months.

In appraising earnings for the full year, allowance should be made for the influence of heavier demand in diminishing markdowns and in establishing more confidence in mark-on policies. Under strong competition through 1949 cumulative mark-ons of the average large department stores shrank to 38.7% from an already restricted level of 38.9% in 1949, but in the last few months a notable recovery has undoubtedly reversed the trend. On larger sales this factor could substantially improve operating earnings, while similar benefits should stem from increased unit sales over which overhead expenses are spread. Profits from much larger sales of apparel, sheets, towels and other soft goods currently support expectations of well sustained earnings in the second half year.

On the whole, the long established and efficiently managed department stores and chains throughout the nation seem certain to progress favorably in the current year. Many alert managements which have modernized their facilities and established up-to-date branches in the rapidly growing suburban centers stand to gain substantially by these improvements. For the fiscal year ending Jaunary 31, 1950, adopted by most stores, earnings gains should be quite general.

*VARIETY CHAINS*:

While demands for most kinds of variety store goods continued steady to strong in the first half of 1950, lower prices generally reduced sales somewhat in this field. Volume of the group was off about 2.2% in the first four months. Among exceptions to the general rule, was Western Auto Supply, whose expanded facilities and diversified offerings created a sharp rise in volume that undoubtedly has been extended as the year progressed. Sales of Woolworth also rose slightly in the first five months, and with 97 new projects planned for the current year, an advance in volume should continue to benefit the company's earning capacity. Woolworth's net per share in 1950 should substantially improve over the 1949 level of $3.83. In fact, all of the better situated variety stores should share importantly in the indicated improvement of demand in the second half year.

*SPECIALTY STORES*:

The slow demand for apparel in spring, combined with reduced prices probably established a decline of around 6% in the volume of specialty stores in the first half year. On reduced sales, margins were generally narrowed and it is thought that earnings in this retail division receded somewhat. A strong uptrend in demand that appeared in recent months, however, promoting confidence that earnings from large sales in the second half year will more than compensate for earlier declines, and that profits for the full year should be considerably larger than in 1949. Firm prices and the elimination of former inventory losses lend a bright color to the intermediate outlook for the top-grade specialty stores.

Generally, there is every evidence of a fairly bright outlook for retail trade during the balance of the year despite the fact that the real surge of scare buying is over, and the possibility of something of a lull in soft goods lines before the seasonal fall pick-up. On the other hand, emphasis on hard goods is redoubled, and hard goods output remains large and should be so for most of the balance of the year. What with steadily rising consumer incomes, demand should continue large enough to support a retail volume well above last year's.

The improved potentials for retail stores in general has already been reflected by a substantial rise in quotations for mail order and department store shares, and a less rapid advance for the equities of specialty stores. Because of the encouraging prospects in coming months, further selective appreciation may well occur barring adverse action of the general market.

## Are Rail Bonds Now Attractive?

(*Continued from page* 611)

The statistical data presented in our tabulation is to a large extent self-explanatory and shows the various ranges of yield, depending on quality of the bonds listed. As the basic situation of the railroads continues to improve under prospective conditions favoring heavier freight traffic, expanding revenues and net earnings, even the lesser grades are apt to benefit from the improved credit standing and lessened risk, and yields are apt to narrow from current levels.

Thus income bonds, normally quite speculative under past conditions, have been especially strong in the last few months, reaching new highs for about two years under aggressive demand stimulated by the belief that the railroad industry is assured of good profits under prospective conditions. There may be no upsurge of railbond prices reminiscent of that which occurred during the last war, but doubtless appreciation possibilities particularly among the more speculative classes have improved. Nevertheless, individual selections should be made with care and will of course in large part be governed by yield considerations. The high grade bonds, because of their narrow yield, are of course of relatively little interest to the average investor who can do better with good grade common stocks.

## Answers to Inquiries

(*Continued from page* 638)

colors. This makes fashion only a small part of Allied's marketing effort.

Profit for the fiscal year ended June 30, 1950 after taxes were $1,002,905 or $3.90 per share. This compares with $772,276 and $3.00 per share for the preceding fiscal year.

At the end of June the market on goatskins was substantially the same as prevailed the end of December 1949, although since then they have firmed up.

At the company's meeting on July 28, the directors decided to increase regular quarterly dividend from 37½¢ to 40¢ and to pay an extra dividend of 10¢. The continuation of this extra dividend quarterly will depend upon profits and prospects.

Capitalization consists solely of 300,000 shares of common stock of which 257,000 were outstanding on June 30, 1950.

Total current assets as of June 30, 1950 were equal to 5.9 times current liabilities.

Since most of company's raw material is imported, a relatively large inventory is unavoidable. To offset the risk which this involves, Allied set up in previous years a raw skin reserve which now amounts to $650,000, equal to $1 million before taxes.

## For Profits Income

(*Continued from page* 629)

ance for higher taxes, including an EPT for half of the year. The dividend is on a $2 basis. The stock is currently around 20, comparing with 1949 low of 13⅛ and with 1946 high of 26½. There is nothing ahead of the 2,172,343 shares of common.

## What Profit Potentials In Big Aircraft Orders?

(*Continued from page* 621)

forces in the Korean fighting. Restoration of world peace to the extent experienced after the first World War—which unfortunately seems beyond belief—quite likely would compel a 90 to 95 per cent retrenchment for all but two or three of the leading manufacturers. Perhaps a threat of serious cutbacks is less important as a market factor at the moment than tax and renegotiation regulations, but it is something that must be weighed to some extent in longer range appraisals.

The extent of the impact of war orders on the aircraft industry may be measured by recent disclosure of official estimates. Air Force procurement of new aircraft is expected to jump to almost $6,900 million in the year ending next June from $2,300 million projected for the year prior to Korean developments. A decline is foreseen in following year with purchases estimated at $4,300 million. The Air Force is expected to require more than 4,400 planes. This compares with an estimate of only 1,460 prior to the Korean aggression. Navy plane procurement is scheduled to rise to more than 3,350 planes from an estimated total of only about 1,000 before the emergency.

Although total appropriation compilations are of little value in projecting production and earnings forecasts for individual companies, they are helpful in indicating trends. In prosecuting the Korean campaign, for example, it seems evident that greatest emphasis may be placed on medium bombers and day fighters. Judging from enemy accounts, extensive damage has been inflicted by the Air Force. North Korean

broadcasts have repeatedly admitted that American strategic bombing has had a devastating effect not only on life and property but on army morale. These reports, confirmed by Army Intelligence sources, suggest that even greater reliance may be placed on the Air Force in turning the tide of battle, for aircraft and bombs are more readily expendable than human life in ground combat.

If this logic proves valid, it would seem probable that over the near term, greatest demands may be made upon Boeing Airplane Company, principal manufacturer of medium bombers like the B-47s and B-50s. These modern craft are destined to replace outmoded B-29s which won the war with Japan and now are being used until replacements can be provided. In the absence of official disclosures, it has been assumed that the Air Force contemplates formation of some 18 medium bomber groups consisting of thirty bombers and fifteen fuel tankers in each group. Supplying such requirements, including spare parts, etc., promises to keep Boeing, United Aircraft and other plants busy for quite some time to come. Reported order backlogs (see table) of the first mentioned certainly point in this direction.

More than 1,600 jet fighters probably will be required to maintain a projected complement of 22 groups of 75 planes each in the enlarged force. Republic Aviation Corporation and North American Aviation, Inc., manufacturers of F-84 and F-86 fighters, respectively, seem likely to be called upon to produce the bulk of requirements in this division. Low flying fighters are said to have been especially effective in the Korean campaign in knocking out enemy tanks and in destroying supply trains. Increasing emphasis on speedy fighter craft may necessitate expansion of Republic's facilities. For the most part, however, plant space probably presents fewer problems than any other aspect of the expansion program.

Although, as mentioned earlier, earnings and dividend records are less influential in determining price fluctuations of aircraft stocks than of many other industry shares, these statistics are not to be ignored and will be discussed in some detail later. In the meantime attention may be called to the accompanying tabulation of representative stocks showing recent data on which comparisons may be made.

In the light of experiences in the last decade, investors may be better able to evaluate current earnings and dividends in this industry. Hence, for those in position to watch developments closely, liberal yields on fairly well protected dividends may have appeal. In the case of Douglas Aircraft, for instance, earnings show promise of ranging this year well above the $9.19 a share for the fiscal year ended November 30, 1949, as well as the $9.72 a share of 1948.

Dividends are being disbursed at the rate of $1.25 a share quarterly and extras in the last twelve months have brought payments for the year to $7.75 a share. Backlog of orders stood at more than $270 million on April 1 and undoubtedly have been greatly enlarged in recent weeks. The company, which long has been the country's leading supplier of military planes, has maintained a conservative accounting policy. Since the end of the recent war, commercial orders have been important, and prospects for development of airline business after the present emergency is promising.

Consolidated Vultee has experienced an impressive recovery in the last couple of years in supplying heavy bombers. The company has been a principal source of long range craft such as the B-36, upon which reliance has been placed for four heavy bomber groups of thirty planes each. It has been estimated that backlog of orders for B-36s may have been boosted 50 per cent since the Korean invasion. Earnings this year have shown encouraging improvement and are being estimated at from $3 to $4.50 a share for the fiscal year to end November 30. This would compare with $1.60 a share last year and a substantial loss in 1948. Prospects are regarded as promising for early restoration of the shares to a regular dividend basis.

Boeing Airplane probably is in line for as proportionate an expansion as any other company in the industry. Substantial improvement in earnings, marked by a jump in net profit to $5.51 a share for the first six months of this year compared with $4.08 a share for all of 1949, suggests what may be expected as result

of increased deliveries of commercial as well as military planes. Experimental costs no doubt are proving less adverse a factor this year than in 1949. Backlog of orders, which stood at about $366 million at the beginning of the second quarter, presumably have been further enlarged.

Grumman Aircraft is the leading supplier of Navy aircraft and, although procurement of fighters would be greater on part of the Navy if there were any potential enemy naval force of consequence, still fairly larger orders are in prospect. Lockheed Aircraft apparently is to supply considerable quantities of all-weather fighters for the Air Force. As mentioned earlier, Republic Aviation and North American Aviation are in line for a major portion of fighter and tactical reconnaissance ships. Fairchild Engine, as well as other companies previously mentioned, are to supply troop carrier planes.

Some of the smaller independents which have experienced quite a struggle while depending on civilian orders — companies like Beech Aircraft, Bell, Piper, etc.—would be logical candidates for subcontract work and may be expected to register improvement.

Leading manufacturers of engines, propellers, instruments, communication systems, etc., also seem destined to play an important role in the national defense program. Such companies include Bendix Aviation, United Aircraft, Sperry Corporation, Garret Corporation and even General Electric and Westinghouse Electric, which have become important suppliers of jet engines.

## As I See It!

(*Continued from page* 601)

conclusive evidence that Chinese communist forces have crossed the North Korean frontier, the possibility seems stronger than it did some weeks ago. There is every sign that a build-up for intervention is being prepared by the enemy.

Little wonder that Washington is less confident than it was that the Korean conflict can be isolated; hence also its nervous reaction to the MacArthur statement. However, if there is increased danger of Red China joining Red Korea, all the greater the need for a firm, realistic policy regarding Formosa. If we really want to defend it—and we'll have to, should we get actively entangled with Red China—we might as well take proper steps now to make it defendable. The Soviets will call us "imperialist aggressors" no matter what we do. We might as well make our stand crystal-clear and prepare to hold the line in the Pacific area while there is still time. This means, among other things, that there can be no weakening in our stand on Formosa.

## Status Of Corporate Cash Resources

(*Continued from page* 608)

level as a year earlier. A sharp expansion in current liabilities, however, occurred to carry large stocks of raw wool at record high prices, while earlier inventory losses had cut into the value of finished or semifinished goods. The company's current ratio, accordingly, contracted to 2.5% from 5.7% the year before.

Considering the likelihood that orders for military fabrics will mount and that inventories will further rise, American Woolen's working capital may not prove any too ample by usual standards. Unless operating margins can be widened by larger volume of both Government and civilian business at satisfactory prices, working capital problems may defer the resumption of common dividends.

While Glenn L. Martin Company somewhat improved its current ratio in the year ended June 30, at 1.6 it was still pretty narrow by normal standards. On the other hand, this concern for more than a year has had the Government as its main customer, and a plentiful purchaser at that. In the circumstances, inventories and receivables are almost as good as cash. The company's financial position has also been strengthened by the retirement of $4.1 million long term debt and an increase in cash holdings to $16.6 million from $9.9 million.

The June 30 balance sheet of General Motors Corporation reveals outstanding financial improvement, and is typical of the impregnable position attained by a number of large corporations. GM not only retired $125 million term debt but increased its holdings of cash and marketable securities by about $472 million in twelve months, while current liabilities expanded by only $149 million. Working capital was higher by $344 million for a record total of $1.68 billion. The company obviously is well situated to pay liberal dividends and to finance easily any activities that can be foreseen.

Among the chemicals, it is interesting to note that Dow Chemical Company, despite large outlays for plant improvements, held its current ratio steadily at 2.4. Long term debt, furthermore, was reduced by $4.7 million and working capital rose to $63.4 million from $49.6 million. Improved earnings largely contributed to the fine showing. Beyond doubt, any part that this company may be called on to play in the defense program will create no financial problems.

Caterpillar Tractor, by record sales and earnings, has placed itself in a very strong position to carry on during the military emergency. The company's current ratio widened sharply from 2.9 to 4.4 in the year ended June 30, attended by a rise in working capital to a peak of $81.3 million from $59.9 million. Experience in the production of tractor type crawlers powered by diesel engines will likely bring an inflow of military business that

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would fit nicely into normal operations. Under construction is a new $15 million plant that will expand capacity substantially, while the necessary funds for completion have already been provided by the comfortable treasury position.

Further study of the statistical data presented will show that few concerns among those listed are likely to experience anything like a real working capital squeeze in the months ahead. However, time may prove that in some instances the pinch of heavier taxes, combined with inflationary forces and extraordinary working capital needs may eventually lead to greater conservatism in dividend policies. This may particularly be the case among smaller or medium sized concerns, financially less strong. Finances, in short, may in time come in for heightened attention among investors.

## Politico-Economic Weaknesses of the Soviet Orbit

(*Continued from page* 616)

production in the satellite countries, such as that of potash in Poland, bauxite in Hungary, and antimony and tungsten in China. But the adequacy of such essential minerals as copper, nickel, and cobalt is only relative, i.e., relative to the current Russian consumption. Were they to be consumed at the rate at which some of these minerals are consumed in the United States, they would be exhausted in a decade or two.

The distribution of the two key industrial raw materials, coal and iron ore, is also impeding efficient industrial development. The bulk of iron deposits are located more than one thousand miles from the largest coking coal deposits. This puts an extremely heavy burden on railways which are thus forced to move bulky raw materials at the expense of a proper distribution of finished goods.

Cotton, the production of which is sufficient to cover only a small percentage of the potential requirements of the communist orbit, must be moved some two thousand miles by rail to the ports, and then about one thousand miles by slow barges before it reaches the processing centers in the satellite countries. In general the railway network is weakly developed and low winter temperatures and spring thaws may impair its capacity by as much as one-third.

The lag in industrial technology is another weakness not only in Russia but also in the satellite countries. Though the Russians show a certain native inventiveness (in the aircraft industry, for example) and may deal with an emergency effectively and vigorously from time to time, they are as likely as not to use the simple shortcut of copying foreign designs and machinery. Moreover, they do it without any regard for patent rights.

Despite terrific wartime destruction, the inefficiency and some pretty serious bottlenecks in industrial raw materials and industrial equipment, the Soviet Union was able to restore her overall industrial production to the prewar (1940) level during the early part of 1949. At present the industrial output may be running from 25 to 30 per cent above prewar. In comparison, our industrial output is almost 100 per cent higher than before the war, and we are not making full use of all available capacity.

The Soviet Union, on the other hand, is making maximum use of her plant facilities as well as of her labor resources. In Russia this means a 48-hour work week and a rigorous regime under which no American worker would work. It also means the employment of millions of slave workers.

Since the Soviet economy is permanently on a semi-war basis (and the economies of the satellite states are being converted to that status), production has made the greatest advance in the heavy industries. The output of steel is reported to be currently running at an annual rate of about 26 million tons, while the satellites are probably producing from 5 to 6 million tons a year. The output of industrial raw materials, electric power, and of machine tools and machinery and transportation equipment has also made significant advances, doubling and even quadrupling in some lines.

As could be expected the output of consumers' goods is limping far behind; for example, production of cotton cloth and shoes is still about 20 to 25 per cent below the 1940 figures. The actual consumption of some of these goods, may be higher, however, inasmuch as the Soviets have been taking an increasing share of the consumers' goods output of the satellite countries. It is said that there are more Czech and East German goods on display in Moscow than in Prague or Leipzig.

Russia's current industrial production is probably equivalent of about 25 per cent of the current American industrial output. The whole communist orbit, including China, probably does not produce more than one-third as many industrial goods as we do, and probably less than one-fifth as many as does the Western World (U. S. Canada, and Western Europe). The fact that the communist orbit gives the appearance of being stronger militarily is due to two well-known factors: (1) a larger share of current production is devoted to military supplies, and (2) the World War II equipment has not been scrapped as in this country. As a result the Russians have been able to accumulate—very much like the Germans ten years ago—large stocks of military equipment, including tanks and aircraft. In case of a general war once these initial stocks of equipment and ordnance are used up, Russian production would quickly fall behind that of the West.

The picture would, of course, be quite different if the Russians were successful in overrunning Western Europe quickly and in adding its industrial capacity to their own. In such a case a war might be long and undecisive.

How effective bombing would be in crippling the war production of the Soviet Union is difficult to say. Although the Germans occupied in the last war the territory which normally produced about 60 per cent of steel, coal, aluminum, and other industrial products, they never attempted any thorough destruction, by strategic bombing, of Russian factories and railway lines in the unoccupied areas. As a result the Russians were able to move most of the key plants to Western Siberia and Central Asia. This German "oversight", and very substantial lend-lease (amounting to about 10 per cent of overall Soviet production) permitted the Russians to keep their industrial production going at a surprisingly high level. It remains to be seen what they can do without lend-lease and with their cities and factories plastered by bombs.